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U.S., Egyptian Aides Split Over Prospect Of Israeli Pullout

By Judith Miller
New York Times Service
CAIRO — Egyptian and U.S. officials are in disagreement about whether a breakthrough is imminent in efforts to bring about the withdrawal of Israeli forces from southern Lebanon.

The disagreement emerged Sunday after the U.S. defense secretary, Caspar W. Weinberger, held a 90-minute meeting with President Hosni Mubarak here.

Osama el-Baz, Mr. Mubarak's senior foreign policy adviser, said that significant progress had been made in the last few days in U.S.-sponsored efforts to reach an agreement between Israel, Syria and Lebanon on the withdrawal of Israeli forces.

The talks, he said, are at a crucial stage and withdrawal could begin within six months, more or less. But U.S. officials promptly denied that any progress had been made, or that the United States was playing a major role in mediating among the parties.

Mr. Weinberger, asked about Mr. Baz's comments, said: "I'm a California optimist. But I haven't seen any signs of significant progress other than statements being made by Israel and Syria themselves."

Mr. Weinberger arrived in Israel Monday for two days of talks with Israeli leaders who are seeking more financial assistance for its military programs, Reuters reported. He was welcomed in Tel Aviv by Defense Minister Yitzhak Rabin and the chief of staff, Lieutenant General Moshe Levy.

Other U.S. officials also discounted Mr. Baz's assessment. They said that the Israeli prime minister, Shimon Peres, had discussed the situation in southern Lebanon during his recent visit to Washington, but that it was the administration's view that Israel and Syria were still far apart.

Mr. Baz made his remarks during a briefing for reporters about Mr. Mubarak's meeting with Mr. Weinberger.

He said that efforts to end Israeli occupation of southern Lebanon had been a major topic of discussion at the meeting. He reiterated Egypt's view that an Israeli withdrawal was a prerequisite for a thaw in the "cold peace" between Israel and Egypt that has persisted since Israel's invasion of Lebanon in June 1982.

In the talks, Mr. Mubarak was said to have urged Mr. Weinberger to improve relations with Jordan and to reconsider the sale of Stinger anti-aircraft missiles to King Hussein's government.

Relations between Amman and Washington have been strained since last April, when Hussein criticized U.S. policy in the Middle East. The criticism that prompted the Reagan administration to cancel plans for the weapons sale.

Administration officials said Sunday night that the United States had no plan to reconsider the sale of Stingers to Jordan at this time.

Mr. Mubarak's plea came two weeks after Jordan restored full diplomatic relations with Egypt, which it had severed in 1979.

Mr. Baz said that in addition to discussing southern Lebanon, Mr. Mubarak and Mr. Weinberger had conducted an overall review of military cooperation between Cairo and Washington.

Links Satisfy Weinberger
Mr. Weinberger said Monday he was satisfied with the strength of Egyptian-U.S. relations, and vowed to promote military cooperation between the two countries, United Press International reported from Cairo.

Speaking before leaving for the Sinai desert to visit a multinational peacekeeping force, Mr. Weinberger said he hoped that Egyptian and U.S. armed forces would hold more joint military maneuvers.

Assad Arrives in Moscow
President Hafez al-Assad of Syria arrived Monday in Moscow for a visit that coincides with apparent Soviet efforts to boost the Kremlin's role in the Middle East, The Associated Press reported from Moscow.

Tass said Mr. Assad, who made his last official trip to Moscow in November 1982 for the funeral of Leonid I. Brezhnev, was met at the airport by Prime Minister Nikolai A. Tikhonov and Foreign Minister Andrei A. Gromyko.



Guillermo Ungo, a negotiator for the Salvadoran rebels, gestured as he and a colleague, Rubén Zamora, discussed the talks at San Salvador's airport. President José Napoleón Duarte, right, traveled to La Palma on Monday.

Rivals at Talks Share Similar Backgrounds

By Richard J. Meislin
New York Times Service

MEXICO CITY — Monday's meeting between President José Napoleón Duarte and leaders of the Salvadoran left was not one between an established government and peasants in arms but among men with similar backgrounds who have in some cases been friends and colleagues.

Mr. Duarte and the leftist political leaders — Guillermo Ungo and Rubén Zamora — had all been advocates of peaceful change in El Salvador's dictatorial ruling structure in past years, but gradually veered to sharply different paths in their efforts to adjust their country's social inequities.

The younger military leaders, Ferman Cienfuegos and Joaquín Villalobos, moved to armed opposition against the government earlier in their lives, but they too come from middle-class backgrounds.

[Mr. Villalobos did not attend Monday's opening session of the talks, Reuters reported.]

Mr. Duarte is by training an engineer. Mr. Ungo and Mr. Zamora, lawyers. All were sent for their education to schools outside their country, as has been the custom among Salvadoran families able to afford to do so.

Mr. Cienfuegos is a poet and former professor of art history; Mr. Villalobos was an economics student at the National University when he left to become involved in political activity.

Their roles as key representatives in the meeting in the town of La Palma, in a northern region where the guerrillas have been active, recalls the assessment of the Mexican social critic and writer Gabriel Zaid: "Those on top cannot agree about how to treat those on the bottom: This is the conflict that makes Salvadoran blood run."

Mr. Ungo, the president of the Democratic Revolutionary Front, was Mr. Duarte's vice presidential running mate in the elections of 1972. They were prevented from taking office by the military, which Mr. Duarte beat up and exiled both of them from the country.

Mr. Ungo was able to return in 1974; Mr. Duarte did not come back until after a coup by younger military officers in late 1979.

Mr. Zamora played an active role in the early 1970s in El Salvador's Christian Democratic Party, which Mr. Duarte had helped to form in 1960. He also served as minister of the presidency — a post similar to chief of staff — in the civilian-military junta formed after the October 1979 coup.

Both Mr. Ungo and Mr. Zamora resigned from the government early in January 1980, along with dozens of other high officials, protesting the slow rate at which the pro-



President José Napoleón Duarte, right, traveled to La Palma on Monday.

Duarte, Rebels Offer Proposals As Peace Talks Start in Salvador

By Reid G. Miller
Associated Press

LA PALMA, El Salvador — President José Napoleón Duarte and guerrilla leaders presented proposals Monday as they opened the first peace talks since El Salvador's civil war began five years ago.

Mr. Duarte and his aides met the rebel leaders at a church, out of sight of the thousands of people thronging the streets.

While the negotiations continued, government spokesmen announced the proposals Mr. Duarte was making to the rebels on national television and over a loudspeaker to the crowd in La Palma.

They included a general amnesty if the rebels agreed to participate in the democratic process, the right of free association and political activity, and a guarantee against reprisal by the army and security forces.

The statement stopped short of calling for a cease-fire, and apparently offered no guarantee of protection from rightist "death squads."

Mr. Duarte also proposed a commission of six persons from each side to plan further meetings.

The guerrillas distributed a document in La Palma that claimed to contain five points their leaders were discussing.

The document called for an immediate end to government military operations and aerial bombardments of civilian targets; a general increase in workers' salaries; the right to life, dignity, health and education for all Salvadorans; release of all captured prisoners; and an accounting of the missing, and justice for "criminals of war."

Father Gregorio Rosa Chavez, the auxiliary archbishop of San Salvador, stepped from the church 90 minutes after the meeting began and told the crowd: "The talks are going normally."

Mr. Duarte and his party arrived first for the talks, pushing their way through the crowd in the main square. They were greeted at the church by Archbishop Arturo Rivera y Damas of San Salvador and other officials of the Roman Catholic Church, who are serving as witnesses to the talks.

Minutes after the government party entered, the rebels arrived at the rear of the church. They were brought quickly around to the front for a similar greeting and turned inside. The doors swung shut again and the meeting began.

The rebels' negotiators included two civilians: Rubén Zamora and Guillermo Ungo. Both are officials of the Democratic Revolutionary Front, the political arm of the rebel movement.

They were joined by three representatives of the Farabundo Martí National Liberation Front: Ferman Cienfuegos, commander of the Armed Forces of National Liberation; Facundo Guardado, a member of the guerrilla coalition's directorate; and Lidia Díaz, identified as a guerrilla adviser.

[Joquín Villalobos, leader of the largest guerrilla group, the People's Revolutionary Army, announced over the rebel Radio Venceremos that he was unable to take part, Reuters reported.]

"I sincerely regret not being present at this important event," Mr. Villalobos declared in the broadcast.

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3 Immunologists Share Nobel Prize

Award in Medicine Is for Research on System of Antibodies

United Press International

STOCKHOLM — Three scientists from Denmark, West Germany and Argentina shared the 1984 Nobel prize in medicine Monday for research into the body's immune system.

Their research helps diagnose AIDS, or acquired immune deficiency syndrome, and is considered potentially important for treatment of viral diseases and cancer.

The Swedish Karolinska Institute announced that the \$900,000 Nobel prize in physiology or medicine, its official title, was shared by a London-born Dane, Niels K. Jerne, Georges J.F. Köhler of West Germany and César Milstein of Argentina. Dr. Milstein holds British nationality.

Dr. Jerne, 73, the leading theoretician in immunology during the

past 30 years, was honored "for a basic theory on the unique system in which our body protects itself against infection," said Erling Norby, an official of Karolinska Institute.

The institute said Dr. Jerne had solved problems concerning the immune response, which defends the body against bacteria, virus and other micro-organisms.

His work is considered "a starting point of modern cellular immunology," it said.

"Jerne's work is so important that no immunologist in the world can do without it," said a Nobel committee member, Garon Moller, adding that together with the two other laureates, it constitutes a major key to biotechnology.

Dr. Köhler, 38, and Dr. Milstein, 57, "tested experimentally and

found Jerne's theory to be correct," the head of the Nobel committee, David Olsson, said.

Dr. Köhler and Dr. Milstein have developed a technique described as "one of the most important methodological advances in biomedicine during the 1970s," an institute spokesman said.

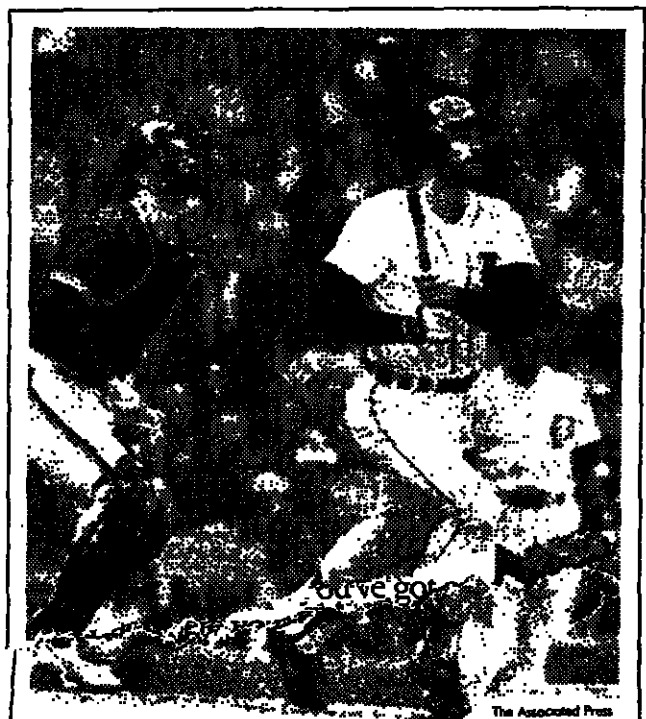
The three scientists were cited by the institute for theories concerning "the specificity in development and control of the immune system" and the discovery of "the principle for production of monoclonal antibodies."

"The development of monoclonal antibodies is the important tool not only in the present use for diagnostics but promises future treatment in various areas, including viral and cancer diseases," Mr. Olsson said.

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César Milstein, above, and Georges J.F. Köhler, left, with Niels K. Jerne, who shared the Nobel Prize in medicine for their research.



Detroit Wins World Series
Kirby Gibson of Detroit watches the first home run he hit Sunday sail to the right field Ugo Padres, 8-4, to win their first World Series since 1909.

U.S. Airlines Inaugurate Air-to-Ground Telephone

New York Times Service

NEW YORK — An era in communications began Monday with the inauguration of pay telephones on airborne commercial jets.

Passengers on 20 wide-bodied jets owned by six airlines will now be able to call anywhere in the United States while flying across the continent. The service, which is expected to be greatly expanded in the coming months, uses cordless phones cradled in wall-mounted consoles. There are to be four on each plane.

Callers will briefly insert a major credit card into the console and then can take the telephone back to their seats for conversations of up to 45 minutes, a period limited by the ground receiving stations. "It's just like a pay phone, only smaller," said Sandra K. Goeken, corporate affairs director for Airfone Inc., an Illinois concern that says it is the only company supplying the equipment to commercial airlines.

The cost will be \$7.50 for the first three minutes and \$1.25 for each additional minute — double the

cost of a regular telephone call to Europe and about the same as one to Japan.

The phones use radio waves, transmitted via two small antennae mounted on the underside of each plane. Initially calls will be made only from the air, but the equipment is capable of receiving phone calls from the ground.

The telephone system has been installed on an experimental basis, before the Federal Communications Commission determines whether to allocate the frequencies permanently.

The airlines offering the system Monday were American, Delta, Northwest, Republic, TWA and United. Eastern, Pan American and Air One will get the equipment later.

American Airways, which has equipped two DC-10s, plans to introduce the service on all 59 of its wide-bodied jets, at the rate of two to four a month, according to an airline spokesman. Eastern is planning to equip its 58 wide-bodied jets next year.

U.K. Police Declare Alert After IRA Bomb

Compiled by Our Staff From Dispatches

LONDON — Police cordoned off Downing Street, the official home of Prime Minister Margaret Thatcher, on Monday after an Irish bomb exploded in a building nearby last week.

Officials said the Houses of Parliament and all government and military establishments were put on "black alert," a high alert status.

Police said the bombing, Friday in a hotel in Brighton in which Mrs. Thatcher and other members of the Conservative government were staying may have been the start of a new Irish Republican Army offensive.

Four people died in the explosion, including one member of Parliament, and 32 were injured, including Trade and Industry Secretary Norman Tebbit. The Conservative Party was holding its annual conference in the town.

The IRA took responsibility for the attack, saying its objective was to wipe out the cabinet and trigger a political crisis to force Britain to withdraw from Northern Ireland.

Brighton police said they were checking the guest lists of the Grand Hotel at Brighton after pinpointing the location of the bomb.

They were working on the theory that the bombers might have checked into the hotel and planted explosives several weeks ago.

Police questioned staff at the hotel and construction workers involved in a refurbishment program, completed just before the start of last week's conference.

Two men detained over the weekend were ruled out Sunday as suspects in the bombing, but a Brighton police spokeswoman said they were still being held "and may

be charged, but only with minor offenses." She did not elaborate.

Police guarded the casualties in Brighton's Royal Sussex County Hospital after a man with an Irish accent telephoned claiming that a bomb had been planted in a hospital in Brighton. Bomb disposal teams searched the hospital, but found nothing.

In London, police manned barriers closing off Downing Street. Extra police were on duty outside government buildings, and people entering Parliament, where the House of Lords reconvened after the summer recess, had to undergo identity checks. The House of Commons reconvenes Tuesday.

The biggest potential headache for the security forces is the state opening of Parliament on Nov. 6, when Queen Elizabeth delivers a speech from the throne of the House of Lords.

Mrs. Thatcher said Monday that the attack would not alter the British tradition of government contact with the public.

"We must never, never, never be stopped from going among the people by a few men of violence, because that is just what they want," Mrs. Thatcher said in a live television program.

Since the bombing, there has been speculation that public figures would have to abandon their usual relaxed attitude toward mingling with the public, particularly at such open events as party conferences.

During a church service on Sunday, "It just occurred to me that this is a day I was not meant to see, and some of my dearest friends are not seeing this day."

Government officials said Mrs.

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Thatcher would go ahead with a planned meeting next month with the Irish Republic's prime minister, Garret FitzGerald.

The meeting will be crucial to Mr. FitzGerald's efforts to develop a British-Irish effort to produce a new constitutional initiative to end 15 years of bloodshed in Northern Ireland in which nearly 2,400 people have been killed.

In Ireland, police said an investigation into an IRA robbery that killed a police officer led to the discovery of sophisticated bomb-making equipment under the floorboards of a house in Lusk, a village 15 miles (24 kilometers) north of Dublin.

A police spokesman said police believed they had discovered a major IRA bomb-making operation. But there was no clear evidence linking the equipment, which included remote-control and timing devices, to the hotel bombing, the spokesman said.

(A.P. Reuters)

A Turk's Journey Into Terrorism: The Story Behind Mehmet Ali Agca

By Michael Dobbs
Washington Post Service

ISTANBUL — The story of the plot to kill the pope begins in this city where Europe meets Asia, the historic crossroads between East and West.

The date: June 25, 1979. The scene: the Marmara cafe, a rightist student haunt on the European side of the Bosphorus. The pope burst in, cornering a scruffy 21-year-old youth who is nonchalantly playing cards.

"I did it. I acted alone," the youth readily confesses when charged with the assassination of Turkey's most prominent newspaper editor. Sent to the country's most secure military prison, he escapes five months later.

A year and a half afterward, the scene shifts to St. Peter's Square in Rome, where the pope is holding his weekly open-air audience. Suddenly two shots ring out above the crowd, hitting him in the shoulder and abdomen.

Despite the pandemonium, the gunman is caught. He boasts to his interrogators: "I acted alone."

It is now known that Mehmet Ali Agca did not act alone — either in Istanbul or in St. Peter's Square. Later this month, after an investigation of more than three years, an Italian judge is expected to issue formal indictments against up to eight alleged accomplices in a conspiracy to murder Pope John Paul II on May 13, 1981.

The suspects are said to represent backgrounds as strange as any John Le Carré novel: a gang of rightist Turkish political thugs, an international smuggling ring known as the "Turkish mafia" and the Bulgarian secret service. In the

background, according to the Italian state prosecutor, was a "political of great power" who allegedly plotted the assassination of the Polish-born pontiff to safeguard "the higher needs of the Soviet bloc."

Much of the evidence in the case comes from Mr. Agca, on whom the Italian prosecutor has relied heavily.

There are many similarities between the murder of Mr. Ipecki and the attack on the pope. In both cases, Mr. Agca seems to have acted as the protégé of a more influential Gray Wolf from Malaysia, Oral Celik. Under interrogation, Mr. Agca, both in Turkey and Italy, changing his testimony repeatedly, apparently to protect his associates.

Italian investigators have failed to turn up evidence directly linking the pope's attacker to the three Bulgarian officials accused of being his co-conspirators. Mr. Agca's credibility has been questioned by magistrates in Italy and Turkey.

A necessary backdrop is provided by the events of the turn of the decade. Upheavals in the pope's native Poland were sending ripples through the Soviet bloc. Turkey, a key U.S. ally, seemed on the brink of civil war, with arms and ammunition being smuggled to both sides via its neighbor, Bulgaria. Italy, recovering from a wave of terrorism, was mired in judicial and political scandals.

Onto this stage came Mr. Agca, born in 1958 and brought up in the town of Malatya, capital of Turkey's most backward and easternmost province.

The Agca family had settled in Yenisehir, a shantytown outside Malatya, and in high school Mehmet

(Continued on Page 7, Col. 1)

Nakasone Faces Little Challenge to Leadership Post

By Clyde Haberman
New York Times Service

TOKYO — Polls and other indicators here suggest that Prime Minister Yasuhiro Nakasone is likely to be re-elected as head of Japan's governing conservative party next month with only token opposition, if that.

Since the presidency of the Liberal Democratic Party carries with it the post of the prime minister, Mr. Nakasone appears virtually assured of staying in office for a second two-year term. In Japanese

politics that would be a notable accomplishment. No recent prime minister — Mr. Nakasone is the sixth since 1972 — has managed to survive much more than two years.

A major rival, former Foreign Minister Kiuchi Miyazawa, said this week that he would run against Mr. Nakasone if Liberal Democratic elders failed to settle upon a single candidate in their discussions over the next two weeks.

It was the most direct challenge to the prime minister's leadership thus far. Other potential rivals to Mr. Nakasone — including two members of the cabinet, Shintaro Abe, the foreign minister, and Toshio Komoto, director of the Economic Planning Agency — have blown hot and cold on the question of whether to run.

Political commentators were convinced that anyone who made a political race this year would do so primarily to position himself for party elections in 1986, not because Mr. Nakasone looked vulnerable.

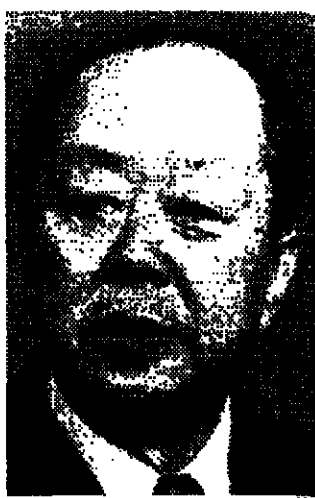
Even Mr. Miyazawa implied in his comments a lack of strong desire. His interest — and that of his principal political benefactor, former Prime Minister Zenko Suzuki — appeared to be more in negotiating a high party post from which to run next time.

Candidates have until Oct. 29 to declare themselves. On Nov. 20, the presidential election will be made by the party's 392 members of the two houses of the Diet, or parliament. If a consensus on a single candidate is reached early, the November proceedings would be nothing more than a formality.

Mr. Nakasone himself has not said yet whether he will run again, but his entry is considered inevitable.



Yasuhiro Nakasone



Kiuchi Miyazawa

Mr. Nakasone has not said yet whether he will run again, but his entry is considered inevitable.

In power since November 1982, the prime minister, now 66, has presided during a period of economic health and relative political calm, with no single issue dominating the national consciousness.

Newspaper and television public-opinion polls taken in recent days have given him approval ratings as high as 58 percent. Forty percent is considered excellent.

Opinion polls, though, mean almost nothing in Liberal Democratic politics. Mr. Nakasone is the favorite because he retains the support of Kakuei Tanaka, the former prime minister who continues to be the party kingmaker despite his conviction on bribery charges last year.

Among the five major factions in which most Liberal Democrats have aligned themselves, Mr. Tanaka's group is by far the largest, with 118 of the party's 392 members of parliament. This faction is effectively barred from putting up a presidential candidate from within its ranks so long as Mr. Tanaka remains in charge. But it can make or break anyone else, and for now that benefits Mr. Nakasone, whose own 55-member political machine is among the smallest.

Israel Says U.S. Will Postpone Debt; State Dept. Is 'Not Aware' of Offer

By Thomas L. Friedman
New York Times Service

JERUSALEM — The Reagan administration has offered to defer until March 1985 \$500 million dollars in debt payments owed by Israel to the United States, and Prime Minister Shimon Peres has accepted the offer, Israeli officials said Monday.

[In Washington, however, John Hughes, a U.S. State Department spokesman, said he was "not aware there was any such agreement." The Washington Post reported.]

The \$500-million payment involved interest and principal due on military procurement loans granted by the United States to Israel in the mid-1970s, which are now coming due following a five-year grace period. Israel has already paid the September installments and the next payments were due in the period between December and March.

It was the first time in its history that Israel had ever decided to reschedule any of its foreign debt, which now totals \$23 billion, the highest per capita in the world.

A senior Israeli official said that although Israel had not made any formal request, it was clearly hoping that after the postponement expires in March the Congress, which will be back in session by then, will agree either to further extend the debt or cancel it. Israeli officials were under the impression that the Reagan administration was committed to asking Congress for such an extension or cancellation.

Although senior Israeli officials talked about the debt postponement as if it was already final, it

was impossible to confirm whether — or how — the Israeli government had formally informed the U.S. Embassy or Washington of its acceptance.

Only a few hours after Mr. Peres informed the cabinet that the United States was ready to defer the \$500-million payment, his monthly government was jolted with the news that consumer prices had risen in September by an average of 21.4 percent.

If the September figures were projected on an annual basis, it would mean that Israel's inflation rate would be 800 percent per year — the highest in the world.

Finance Minister Yitzhak Mordechai said Mr. Peres revealed the American offer of a debt deferment, as well as his acceptance, at a meeting Monday in which he briefed the cabinet on the results of his talks in Washington last week with President Ronald Reagan and other officials.

Mr. Peres "did not ask for deferment of any debts or interest thereon," Mr. Mordechai said in an interview, but since the Americans were "discussing the burden of foreign currency payments on the State of Israel — that includes purchasing of raw materials and military supplies — the administration came forward with an offer that if it can ease somewhat the situation it would be quite willing to defer payments of half a billion dollars for whatever is in their jurisdiction, namely 90 days. The prime minister accepted right away. So we have now a deferment."

President Reagan has the power to defer collection of a foreign debt for 90 days without consulting

Congress. The 90-day period would apply to time period lasting from the next payment due date, at the end of December, until March 1985.

The debt postponement, coupled with the decision by the Reagan administration to give Israel immediately — and not by quarterly installments — the full \$1.2 billion dollars in economic aid it was promised for fiscal 1985, would go a long way toward easing Israel's critical foreign currency shortages.

Foreign reserves were last reported to be about \$1.7 billion dollars, well below the \$3 billion dollar level Israeli governments have always considered the safe minimum.

The Washington Post, according to The Washington Post, Mr. Hughes was asked about the reported debt deferment and replied, "I can't confirm that report. Obviously we've talked about contingencies. I'm not aware there was any such agreement. No decisions have been taken yet about whether it is needed or what moves might be made desirable. I would caution against the idea that an agreement has been reached."

3 Share Nobel For Medicine

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Ottosson said, adding that Dr. Köhler and Dr. Milstein had neglected to patent their discovery.

Dr. Köhler's and Dr. Milstein's application is used to detect AIDS, the institute said. "One practical example is that Köhler has helped us to analyze the symptoms of possible AIDS victims," an institute official said.

AIDS patients suffer a catastrophic decline in their immune systems, making them easy targets for infection. There is no known effective treatment for the disease and most AIDS victims will die of it, experts say.

Dr. Jerne currently is special immunology adviser to the Institut Pasteur in Paris. He also was a research fellow at the California Institute of Technology from 1954 until 1955 and a professor of microbiology and chairman of the department of microbiology at the University of Pittsburgh from 1962 to 1966.

Dr. Jerne's most important achievement was his predictions on how the immune response is regulated by a complex network consisting of antibodies and anti-antibodies.

Monoclonal antibodies are units of the immune system specifically tailored by scientists in laboratories to seek specific cells in the body. The antibodies are considered important in cancer research, therapy and other medical purposes.

The Nobel Peace Prize will be announced in Oslo Tuesday, followed by physics and chemistry Wednesday and economics on Thursday.

China Lauds Capitalism as Party Meets On Reforms

Reuters

BEIJING — Chinese Communist Party leaders met behind closed doors Monday to approve a far-reaching package of economic reforms as their newspaper, the People's Daily, said the country had a lot to learn from capitalism.

In a strongly worded article, the paper defended the government's policy of opening China to the outside world, saying that in the present international climate countries must learn from each other or die.

The article, which covered three-quarters of a page in the official party organ, was published while the party's Central Committee was in the middle of a crucial meeting to endorse a series of major urban reforms, diplomats in Beijing said.

They said the annual meeting was the most important since a similar plenum in 1978 when Deng Xiaoping, China's paramount leader, and his moderate followers threw out Mao's radical leftist economic policies and instituted a program of highly successful rural reforms.

The meeting is discussing a package of industrial and urban changes to reduce the role of centralized planning, give more autonomy to factory managers and cut state subsidies on many goods, the diplomats said. It is expected to last until the middle of the week.

The People's Daily article said some Chinese believed the open policy could undermine China's sovereignty, as in the days of the colonialist treaty ports when Western powers won big trading concessions from the crumbling Chinese empire.

But it said protectionism "can only temporarily protect a nation's industry and commerce, but from the long-term view it is a policy of failure."

The most sensitive issue to be discussed at the party meeting, which diplomats say began last Friday, is price reform. About 25 percent of government spending now goes to subsidizing basic items such as food, housing and transport, and Prime Minister Zhao Ziyang has said this cannot go on indefinitely.

■ Assurance on Hong Kong

Mr. Deng said in an article published Monday that China might extend the 50-year period during which it has pledged to preserve capitalism in Hong Kong after assuming control from Britain in 1997. The Associated Press reported from Beijing.

"When I speak with Hong Kong friends about how long Hong Kong's capitalism will last after 1997, I say if 50 years is too short, let us talk about it again in 50 years," Mr. Deng said in the article in the Chinese weekly magazine Outlook.

WORLD BRIEFS

British Coal Strike Talks Collapse

LONDON (AP) — Talks aimed at settling Britain's seven-month-old coal strike collapsed late Monday and the miners' union leader, Arthur Scargill, said there was no hope of an early end to the dispute. He accused the National Coal Board of effectively breaking off the talks through their "complete intransigence and unwillingness to negotiate." But Ian MacGregor, chairman of the state-owned National Coal Board, said: "We are the only people who have made any concessions." Earlier, there was optimism at the resumed negotiations aimed at settling the walkout, which union leaders called on March 12 against the state-run National Coal Board's plan to shut 20 money-losing mines and eliminate 20,000 jobs. Last week, both sides studied a plan for third-party mediation in the dispute.

U.S. Plans Emergency Plant Seizures

NEW YORK (AP) — The U.S. government would be empowered to temporarily seize defense-related industrial plants and to censor international business telecommunications during national emergencies under plans proposed by the Federal Emergency Management Agency, a government spokesman said Monday.

James Holton, director of public affairs for the agency, said the powers that would be sought from Congress in the event of a war or other national emergency were similar to those granted on a standby basis during World War II. He was responding to questions about a report Monday by a computer trade magazine, Datamation.

The proposal would give the government unlimited powers to seize computers and plants of high-technology industries and would establish an Office of Censorship to control telecommunications leaving the United States, making it a crime for companies to use secret codes, according to Datamation. It said many computer and telecommunications companies supposed to be covered by the proposals were surprised to hear of the plan.

Belgian Liberal Party Office Bombed

BRUSSELS (Reuters) — A bomb exploded at a Liberal Party study center here early Monday, the fourth bombing in the Belgian capital this month, police said. No one was injured.

An anonymous caller claiming to speak for the "Fighting Communist Cells" told the Belgian radio that the attack was aimed at "the center where the [French-speaking] Liberal Reformed Party's plans and speeches are drawn up." No one was injured, but damage was extensive.

The group has claimed responsibility for three other attacks this month aimed at subsidiaries of U.S. and West German companies, which it said supply equipment for NATO's cruise and Pershing-2 nuclear missiles. The Liberal Party supports NATO plans to deploy 48 cruise missiles in Belgium next year.

India Protests U.S. Stance on Pakistan

NEW DELHI (Reuters) — India on Monday expressed concern over a statement by the U.S. ambassador to Pakistan that Washington would help Pakistan if it were attacked by India and denied it was planning any such attack.

"The attempt to project India as a potential aggressor against Pakistan is motivated and reprehensible," a spokesman of India's External Affairs Ministry said. "Such statements alleging aggressive designs to India seem designed to justify in advance the supply of more arms, including sophisticated weapons like Hawkeye, to Pakistan," he added, referring to the American airborne early warning systems.

Press reports last week quoted the U.S. ambassador to Pakistan, Denise Hinton, as saying that Washington would come to Islamabad's help if India attacked its neighbor. In a speech in Lahore, Pakistan, Mr. Hinton said without naming India that if there were an attack on Pakistan's eastern border the United States would not remain neutral.

Pope May Lift Curbs on Old Liturgy

VATICAN CITY (AP) — Pope John Paul II is preparing to lift some of the liturgical restrictions on the Tridentine Mass, which was banned by the Second Vatican Council triggering protests by some conservative clergy, Italian news agencies reported Monday.

The ANSA and AGI news agencies said the Congregation for the Divine Cult, on the pope's order, is drafting a circular on the Mass to be sent to all bishops worldwide.

They said the circular will outline ground rules for when the Mass can be celebrated under "special conditions." The conditions were not named. The liturgy of the Tridentine Mass, established by Pope Pius V in 1570, was outlawed by the Second Vatican Council of 1962-65. The main differences between the old Mass and the new rite is that it is said in Latin, the priest does not face the congregation and the laity takes no part in reading the Bible. Modern Masses are normally said in the vernacular, although it is still permissible to use Latin.

For the Record

The world chess champion, Anatoli Karpov, agreed to a draw Monday after 33 moves in the 13th game of his world title contest with Gary Kasparov. Mr. Karpov leads 4-0. It was the fourth consecutive draw in the match after Mr. Karpov established his lead. (AP)

Newspapers in Dhaka, Bangladesh, failed to appear Monday following a warning by authorities about coverage of Sunday's opposition rallies. The journalists' union brought printing to a halt after officials telephoned newspapers allegedly setting out restrictions on rally reports. (AP)

The risk of explosion appears to have receded aboard the Panamanian gas tanker Gaz Fountain, hit in a Gulf air attack, apparently by Iran, on Friday. (Reuters)

Seven Israeli teen-agers on a bird-watching trip to the occupied West Bank were injured by an explosive charge Monday. The explosion occurred near a bus that had carried the Israelis on their outing southward of the Palestinian city of Nabulus. (AP)

Striking employees at Disneyland in Anaheim, California, reached a tentative settlement with negotiators for the amusement park late Sunday night after a 13-hour negotiating session. The workers had been on strike for 20 days. Details of the settlement were not disclosed. (LAT)

The Reverend Bruce Kent, general secretary of Britain's Campaign for Nuclear Disarmament, announced on Sunday he will give up his post next February. He said he cannot cope with the administrative and public duties of the growing organization. (UPI)

Both Sides Offer Proposals As El Salvador Talks Start

(Continued from Page 1)

cast just before the talks began. He gave no reason for his absence.

President Duarte, followed by 100 vehicles full of peasants, workers and supporters, reached La Palma an hour before the meeting. He had left the capital shortly after daybreak, leading a three-hour "peace parade" to La Palma.

"I'm not here to get anything today," Mr. Duarte said before he entered La Palma. "I'm here to open the doors, to show that everyone can get through without pushing. The important thing is to sit down and discuss, to be ready to listen. Up to this minute, nobody has been willing to listen."

Both sides agreed to keep armed forces at least six miles (nine and a half kilometers) away from La Palma, and to leave security to the Roman Catholic Church, the Red Cross and Salvadoran Boy Scouts. The rebels have held La Palma for more than a year, except for occasional army forays into the town.

■ Rebels Express Pessimism

Das Williams of the Los Angeles Times reported from La Palma: Mr. Ungo and Mr. Zamora reached La Palma on Sunday evening in a Red Cross motor conveyer from San Salvador, where they arrived.

They held an impromptu news conference, then drove into the hills outside town to meet with guerrilla leaders.

In both the capital and La Palma, the two expressed little optimism that the talks would succeed in ending the civil war.

Mr. Ungo said the rebels want "to do everything to get peace," but warned that "there's no magic formula."

"We do not want to create such expectations," he said. Mr. Ungo said that during the first day of talks, "it is necessary to discover points in common to keep us going."

The arrival of the two at San Salvador's international airport was the first public appearance of rebel leaders in the capital in several years. Among those in the welcoming party was one Salvadoran official, Gerardo Le Chevalier, a government spokesman. He did not shake hands with the rebels.

Speaking about Monday's meeting, Mr. Zamora said, "We have reservations about its being a serious dialogue. But we are determined to give this dialogue the real content and seriousness that it deserves."

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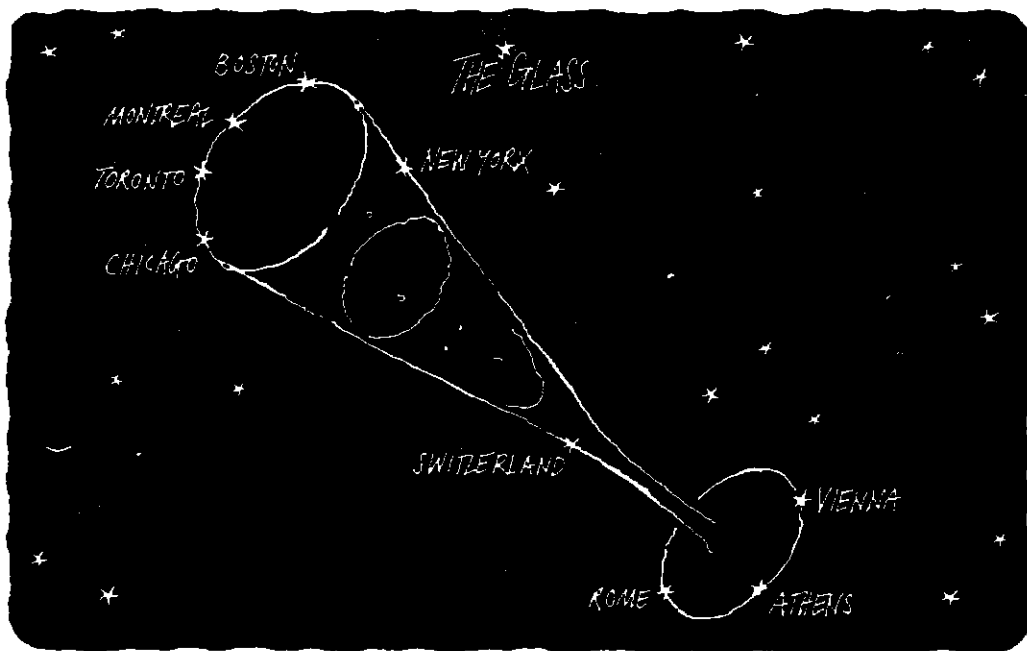
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98th Congress: Defiant, Partisan, but Timid on Tough Issues

By Martin Tolchin
New York Times Service

WASHINGTON — The 98th Congress slowed the momentum of President Ronald Reagan's efforts to change the scope and direction of government by restoring funds for health, education and welfare and reducing his military spending requests.

The session, which adjourned Friday, was full of partisan warfare between Mr. Reagan and Democrats. They traded charges about who was to blame for problems ranging from deficits to the bombings in Lebanon.

Mr. Reagan's political magic, manifest in public opinion polls, was scarcely evident on Capitol Hill. Unlike its predecessor, the 98th Congress repeatedly defied the president on economic and military issues. But it was timid in tackling some of the tough issues.

A proposed overhaul of the immigration laws died in a House-Senate conference; a major civil rights bill overwhelmingly approved by the Democratic-controlled House was killed in the Republican-led Senate, and a banking deregulation bill that the Senate overwhelmingly approved was scuttled by a House committee.

"It was not as productive a session as I would have liked," said Representative Jim Wright, Democrat of Texas, the majority leader.

The 97th Congress gave Mr. Reagan the bills he sought on



Robert H. Michel

spending, taxes and the military. The 98th Congress balked at further cuts in social spending and reduced by more than half the increase he sought for the military.

"This Congress has provided a safety net against the excesses of Ronald Reagan," said the speaker of the House, Thomas P. O'Neill Jr., Democrat of Massachusetts.

A different perspective was offered by Representative Robert H. Michel, Republican of Illinois, the minority leader.

"This Congress was one of the most partisan and unproductive in history," he said.

The president's coalition in the previous Congress was eroded by the influx of 25 new House Democrats, who altered the balance of power in favor of the Democrats.

Mr. Reagan, whose word was law two years ago, proved unable to persuade Congress to approve a proposed amendment to the Constitution requiring a balanced budget and a school prayer amendment. He also failed to get tuition tax credits for parents with children in private schools or a program to provide tax and wage incentives to create urban jobs.

The Congress also refused to give the president the power to veto specific items in budget bills.

The chaos of the closing days, in which frustrated lawmakers sought to attach hundreds of bills to a \$470-billion omnibus spending bill, gave rise to a consensus that congressional procedures had to be revised to avoid such 11th-hour maneuvering.

Both parties in Congress were beset by internal strife. The congressional Democrats who endorsed Walter F. Mondale last winter gave his presidential campaign its first major block of delegates.

But many Democrats began disassociating themselves from his hard-pressed campaign this fall, to the dismay of the leadership.

An aggressive band of conservative House Republicans challenged their leadership's occasional calls for cooperation with the Democrats. But Senate Republicans continued to display unusual unity.

Much of the last session was spent marking time waiting for White House officials and congressional



Jim Wright

leaders to agree on a military spending package. A compromise was ultimately reached between the House and Senate.

House Democratic leaders were then incensed when Mr. Reagan blamed them for the ensuing delays.

Failure to reach agreement also held up a \$932-billion budget resolution for fiscal 1985, that included a deficit of \$181 billion.

Congress did approve a major tax package to raise \$50 billion through the 1987 fiscal year as part of the Deficit Reduction Act, a package reducing deficits by \$63 billion through 1987.

On defense issues, both the 97th and 98th sessions were marked by frequent tension between Congress and the White House.

Congress reduced the number of MX missiles to 15 from the 40 Mr. Reagan had requested as part of a \$293-billion military spending bill. Congress further provided that those 15 missiles must be approved again next year.

Congress also barred aid to the rebels in Nicaragua through next Feb. 28. At that time it could be restored only by votes in both houses after a presidential certification that the Sandinist government was undermining its neighbors.

Congress rejected a ban on placing U.S. combat forces in Central America, but it did pass a resolution expressing disapproval of such an action.

The Senate killed a House-passed resolution that called for a mutual and verifiable freeze on nuclear weapons for both the United States and the Soviet Union.

Congress heeded the president's request for funds to El Salvador. It approved \$62 million in supplemental military aid for El Salvador, in addition to \$64.8 million that had been previously appropriated.

Ratification of a United Nations convention that calls for specific steps to prevent and punish genocide was delayed again, as it has been since 1949. But the Senate did vote to support its principles and declared its intention to act expeditiously in the next Congress.

In domestic affairs, one of the major congressional achievements was adoption of an anti-crime package. It reforms federal bail and sentencing procedures, revises the insanity defense to place the burden of proof on the defendant to

prove insanity and increases the penalties for labor racketeering and trafficking in dangerous drugs.

But Congress failed to adopt Mr. Reagan's major proposals: reinstatement of the death penalty for some federal crimes and revisions in rules excluding illegally obtained evidence from criminal trials.

After rejecting a school prayer amendment, Congress did enact legislation requiring public schools receiving federal funds to allow access to school facilities by any student religious or political group if the school permitted other extracurricular groups to meet in the school.

In response to complaints about arbitrary benefit cutoffs, Congress approved standards that must be met before a person who receives Social Security disability benefits can be removed from the rolls. It also approved an increase in the cost-of-living adjustment for Social Security beneficiaries.

The Congress passed and the president has signed into law the Women's Pension Equity Act. This gives spouses the right to the pensions of workers who die before retirement age, provides for one-year maternity and paternity leaves and makes other changes intended to provide more equitable treatment of women.

Congress approved legislation to withhold some highway funds from states that failed to raise their minimum drinking age to 21.

The 98th Congress established a new legal holiday commemorating the birthday of the Reverend Martin Luther King Jr.

Nicaragua Rebels Given Warfare Manual by CIA

Handbook Urges 'Selective' Violence To 'Neutralize' Sandinist Officials

By Robert Parry

WASHINGTON — The Central Intelligence Agency produced a psychological warfare manual for Nicaraguan rebels that instructs them to hire professional criminals for "selective jobs" and says some government officials can be "neutralized" with the "selective use of violence," according to intelligence sources.

The 90-page manual, written in Spanish, also urges the rebels to create a "martyr" by arranging a violent demonstration that leads to the death of one of their supporters, and it tells how to coerce Nicaraguans into carrying out assignments against their will.

The authenticity of a duplicated copy of the book and the CIA's role in its production were confirmed independently by U.S. intelligence sources, who insisted on anonymity.

Produced by the CIA about a year ago, the manual, "Psychological Operations in Guerrilla War," was distributed among the Honduran-based Nicaraguan Democratic Force, the sources said. A source familiar with the book said it was sent out at about the same time the agency supplied a booklet in comic book-style illustrating Nicaraguans how to sabotage their government.

The organization's president, Adolfo Calero Portocarrero, whose group is the largest rebel faction, said he first saw the manual "less than a year ago" and that it was given only to "our top people." He denied the CIA produced it, claiming it was a "contribution" from a supporter whose name he could not recall.

Mr. Calero said that while the manual presents what he called "some applicable ideas," it also contained things "we would not accept and we do not practice. It talks about terrorism, which is something we haven't done."

A CIA spokesman, George Lander, refused comment on the manual. Although the Nicaraguan government and Americans living in the country have accused the rebel organization of murdering and kidnapping civilian officials, it could not be determined that any of the actions recommended by the manual were being carried out.

The manual emphasizes the need for political propaganda in a guerrilla war and includes instructions on how to conduct psychological operations aimed to create resistance to the government. It counsels rebels against using "explicit

terror" against the civilian population, as that could cost support.

But the manual endorses the "selective use of violence" against Nicaraguan judges, police and security officials. It says such people can be "neutralized," but that the targets should be selected carefully based on their unpopularity with the people and the "level of violence necessary to carry out the change."

The book does not use the words "assassinate" or "kill," although references to "danger to other individuals in the area of the target" and to assessing likely replacements suggest that the goal is to remove the officials physically.

An executive order signed by President Ronald Reagan on Dec. 4, 1981, said no U.S. government employee "shall engage in or conspire to engage in assassination" and adds that no intelligence agency "shall participate in or request any person to undertake activities forbidden by this order."

The manual says: "If possible, professional criminals should be hired to carry out specific, selective jobs." The precise nature of those "jobs" — "irregular" in the original Spanish — is not explained.

Mr. Reagan, who has accused the Sandinists of aiding Marxist guerrillas in El Salvador, authorized covert action in Nicaragua in December 1981.

Sandinist Rivals Are Out of Poll

Washington Post Service

MANAGUA — The last hopes for a postponement of Nicaragua's Nov. 4 election and participation of the major opposition coalition disappeared as the Sandinist government, the opposition and the principal outside mediator agreed there was no point in continuing the effort.

In a news conference here Sunday after two days of talks, former Chancellor Willy Brandt of West Germany said he knew the effort was useless even before he arrived for a final try at bringing the two sides together. Mr. Brandt, representing the Socialist International, had been one of the mediators in talks between the Sandinists and the opposition Nicaraguan Democratic Coordinator, led by Arturo José Cruz, in Brazil earlier this month.

Mr. Brandt said Sunday that he considered the elections "a step forward for Nicaragua" even without the participation of Mr. Cruz.

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U.K. Labor Party Envoy Visits 3 Jailed Activists in S. Africa

Agence France-Press

PIETERMARITZBURG. South Africa — The spokesman on Southern African affairs for Britain's opposition Labor Party, Donald Anderson, met here Monday in prison with three anti-apartheid activists detained without trial.

They were arrested Oct. 6 when they left the British Consulate in Durban, where they had taken refuge with three others to evade arrest on unspecified charges under South Africa's security laws.

Mr. Anderson visited the three remaining in the consulate on Sunday.

Zac Yacoob, lawyer for all six of the activists, who are members of the United Democratic Front and the Natal Indian Congress, said Monday's meeting lasted for about an hour.

Mr. Anderson's visit has been extensively covered by the South

African press and has drawn further criticism from the South African foreign minister, R. F. Botha, because of the fugitives.

After Mr. Anderson's expressed solidarity with people detained without trial on his arrival Sunday, Mr. Botha asked why the previous Labor government in Britain applied similar laws in Northern Ireland to combat the Irish Republican Army, and which black-ruled African country would have allowed him to visit detainees and condemn its government.

Mr. Anderson replied, "Firstly the IRA is a terrorist organization. By contrast those [UDF members] swept up by the security authorities as detainees did no more than urge a nonviolent boycott to elections." He referred to elections in August for separate houses of Parliament for South Africa's Indian and mixed-race communities.



Donald Anderson, British Labor Party spokesman on Southern African affairs, leaves the South African prison where he visited three detained anti-apartheid activists.

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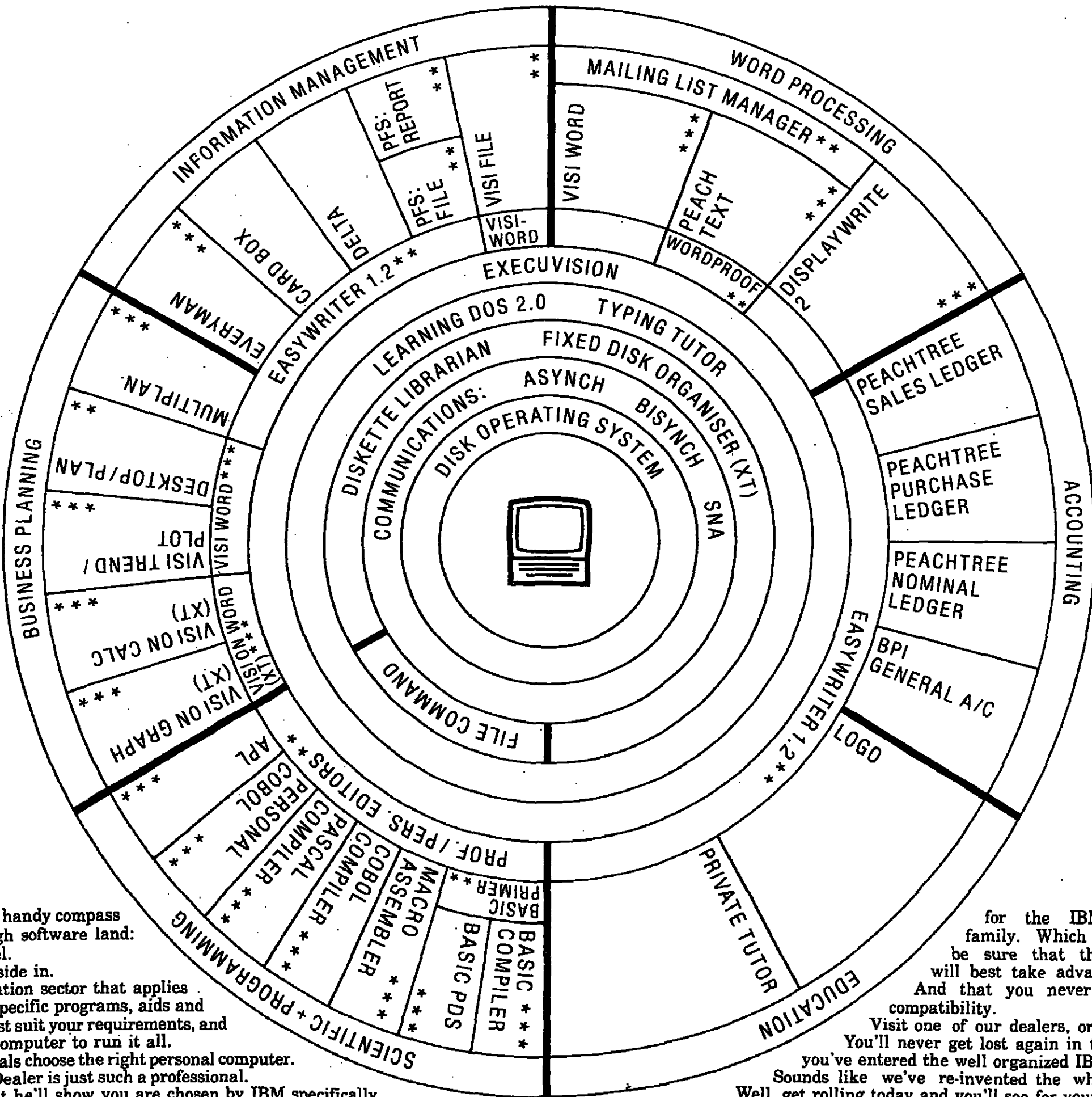


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Bombings Reported at Zhivkov Visits

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The Drift to Unilateralism

The tragic and despicable bomb attack Friday in Brighton overshadows the importance of what was said and done at the Conservative Party conference there, as well as what Labor Party members said and did the week before at their own conference in Blackpool. Nonetheless, there is one result of the Labor conference that must be noted, for it weighs significantly upon the future of the Western alliance.

This year the Labor Party not only listened to nuclear unilateralist speeches and cheered their fine sentiments, but actually and formally committed a future Labor government to expel American nuclear forces from Britain and to give up the country's own nuclear defenses.

Clearly the Labor Party's statement is in part a reaction to what has been happening in Washington. The arms-control policy of the Reagan administration has commonly been seen abroad — by Britain's left and in other countries as well — as a policy of obstructing arms control. But the problem has older and deeper sources. There is deepening trans-Atlantic disagreement upon how the Soviet threat is to be assessed. Washington, in the last decade, has taken a view of the Soviet Union as much more aggressive, more determined to acquire and exploit military superiority, than most Europeans are prepared to accept.

In the past year, President Reagan and the U.S. government have moved closer toward an accommodation with European views; the influence of the more practical and less ideological men in Mr. Reagan's entourage has increased. The president has a considerable record, both in California's governorship and in the White House, of dramatic statement followed by practical compromise. Certainly he is now looking for movement on the arms issue, and it is not unreasonable to predict, depending on who his

second-term advisers would be, that Mr. Reagan would continue seeking common ground with the European governments.

Nonetheless, disagreements now run too deep to be remedied by mere shifts in policy emphasis. Vulnerabilities are seen differently on the two sides of the Atlantic, and there are different fears and ambitions as well. Nuclear unilateralism in Western Europe is meeting, and being reinforced by, a growing foreign policy unilateralism in the United States. Americans, reasonably enough, are asking why the United States should be expected to spend proportionately more on Europe's defense than Europeans are prepared to do, and to run nuclear risks the Europeans refuse — or scorn.

For many years, the Mansfield amendment, which called for withdrawal of U.S. troops from the North Atlantic Treaty Organization, was offered in the Senate and ritually rejected, serving as a kind of temperature-taking of alliance sentiment on the American side of the Atlantic. More recently, Senator Sam Nunn's motions, calling for the United States to withdraw from Europe if there is not drastic change in European spending on NATO, have become a regular event. These, unlike the Mansfield amendment, have become a serious matter.

But European nuclear unilateralism is also serious. It is a serious matter that the Labor Party — and earlier, in West Germany, the Social Democratic Party, both of them once bedrock supporters of the alliance — should have adopted what are not merely anti-nuclear positions but implicitly, even explicitly, anti-American ones.

The alliance is not in reassuring condition. The disintegrative pressures now being felt come from shifts in public opinion on the two sides of the Atlantic that are not to be taken lightly.

INTERNATIONAL HERALD TRIBUNE.

The Insulated Presidency: Why Is Reagan Shielded?

By David S. Broder

WASHINGTON — One of the continuing puzzles about President Reagan is the quality that his intimates see in him that makes them feel he needs to be shielded from the outside world.

Any president needs security protection against assassins and terrorists, of course. This one, who has been the target of one murder attempt, is, that goodness, getting the best protection the skilled Secret Service can provide. That is not what I am talking about. I am talking about the political protection and insulation in which Mr. Reagan has been wrapped, often to his seeming disadvantage, by a succession of political aides and advisers.

The sheltered nature of his current campaign has been well discussed. The size, and often the crowds, for Mr. Reagan's events have been carefully screened. In negotiations for debates, his handlers made it clear that they did not want genuine debates, but forums in which moderators and panels of questioners stand between him and his opponent. When he has a news conference — well, he has not had one since July, so there is no need to finish the thought.

But this is not a special condition imposed during the campaign. It has been a characteristic of his presidency. Rarely has Mr. Reagan been left unguarded and unattended to deal with issues and situations on his own.

Foreign diplomats and members of Congress have found that an invitation to meet this president is really a summons to a committee session, with the president surrounded by members of his staff, his cabinet and, often, Vice President George Bush.

As they describe the sessions, the president often does little more than offer an opening word of welcome. Then he settles back to listen as the others discuss the matter at hand. When journalists are invited in to

bear the president talk informally, we find that several members of his top staff — busy people with work of their own to do — draw up their chairs to the table. There is, in short, a lot of hovering around.

It has never been clear to me just what it is that the people in this protective phalanx believe they are protecting. Mr. Reagan is a fine conversationalist, perfectly at ease with people. There are no visible signals that pass from the aides to the president in these sessions, nor does he seem to need their instruction to know what to say. Yet they always seem poised to intervene — as if he were going to need help.

Some people who have worked for Mr. Reagan over the years, and no longer do, tell me they believe he has a strong distaste for any kind of personal confrontation. He does not like to be contradicted or even closely questioned on his views, they say. That is understandable. Most of us do not savor the experience. But sensitive souls with thin skins do not usually become union presidents or conduct contract negotiations, as Mr. Reagan did when he was head of the Screen Actors Guild. They do not go into politics and become governor and president. The "shrinking violet" theory is implausible.

The other theory I have heard from these former intimates makes more sense. It is that those who work with Mr. Reagan quickly come to understand how little his policy views rest on information or facts, and how much they rely on his instincts and long-cherished beliefs.

Even to an outsider, it has long been obvious that policy analysis is not Mr. Reagan's favorite indoor sport, or even close to the top of the list. The books on the Reagan presidency by Lou Cannon, Strobe Talbot and Laurence I. Barrett, among others, illustrate the in-



comment's often shaky hold on relevant information.

There are a couple of good reasons why the inner circle of advisers would want to shield that kind of president from outside contacts. It makes it easier for them to channel the flow of information to him in ways that move policy in the direction they want it to go. And, as people to whom information and facts are important (indeed, the staple of their business, as of mine), they may have an exaggerated notion of the importance of concealing from the public Mr. Reagan's indifference to expertise.

An outsider cannot judge the extent to which Mr. Reagan's conduct of the presidency is hampered by his distaste for close analysis of policy.

After almost four years in office, he is entitled to be judged by the results, as voters will soon be doing.

But it is striking that so much of the energy of the top White House people — a talented group, for the most part — is siphoned off to the task of shielding the man in charge. Whatever it is they know about Mr. Reagan, it is something they do not want us to find out.

The Washington Post.

On Stopping A Bolt From The Blue

By William Safire

WASHINGTON — Eighteen months ago, in the informal talks after a nuclear arms-control session, a Russian negotiator said casually to an American counterpart, "What if Qaddafi got the bomb?" In response, the American merely winced — such a prospect is one that all of us hate to face — but he duly noted the Russian's concern about the possession of a nuclear device by a terrorist state.

Today, the successful escalation of terror tactics against the United States, by fanatics in the Middle East, is the most serious campaign issue raised by the Democratic candidacy against President Reagan. At the same time, the close call endured by Margaret Thatcher and her cabinet at the hands of Irish Republican Army bombers has driven home to Europeans the rising threat of terrorism.

Project this threat ahead five or ten years. After we figure out a way to stop trucks and hand-delivered bombs, we must expect the terrorists to improve their delivery systems. A West German company has delivered the components of a medium-range missile to the Libyans; only the most cockeyed optimists think that terrorist states will not be able to buy intercontinental missiles on the secret arms market by 1990.

Logic suggests that, sooner or later the terrorists' bombs will be nuclear. Unrest assures that Colonel Qaddafi — or the successor to the dying ayatollah, or perhaps some paranoid Sandinist — will one day possess both an atomic bomb and a missile that can take it across an ocean.

In some future extremis, a terrorist leader will tell Washington or Moscow that unless some concession is made, a world capital will be destroyed. Retaliation would mean nothing to a suicidal bomber; he could not be deterred in any way short of surrender to his demands. What could civilized leaders, in their muscle-bound helplessness, do to a canny madman who welcomes mutual assured destruction?

We are running away from that question, finding security in our old thinking that the threat is from a rational superpower and the greatest worry is an escalation of a conventional war. But consider the unthinkable: World War III may not be the Soviet Union versus the Free World, but terrorism versus civilization.

The only serious suggestion put forward so far is that plan so glibly derided and dismissed by scientific doubters and the frozen arms-control establishment as "Star Wars," and so hastily written off by Walter Mondale as "militarizing the heavens."

The derogating knee-jerkers live with today's threat, with which they are comfortable, but refuse to deal with tomorrow's threat, which is looming larger. That threat is from superterrorism, armed with atomic missiles in a defenseless world. At the least, superterrorism will be able to hold millions hostage to one bolt from the blue, and, at the most, be able to trigger accidental or mistaken war between superpowers.

Space defense would make it possible for the superpowers to detect a missile in its booster phase and shoot it down before it destroyed a city. In the Soviet Union, we see signs of a struggle between polemical bureaucrats and practical soldiers. Marshal Nikolai Ogarkov's bid for power, based on technological realities, has not been wholly squelched; his protégé at the Standing Consultative Commission, Lieutenant General Viktor Starodubov, has not been purged.

That suggests that although the Russians fear U.S. advances in space defense and are trying to block an American anti-satellite test scheduled for next month, the key to offensive arms control could be found in mutual defense against superterrorism. "Could be" is not "is," nor should we forget that most active terrorists today are supported by the Russians. But Ronald Reagan's offer to share space-defense technology is the most daring peace proposal made by an American president, on a historical level with Eisenhower's warning of a military-industrial complex.

The New York Times.

LETTERS

For a United Europe

Regarding the report "Labor Party in Britain Backs Policy of Unilateral Disarmament" (Oct. 4):

James Callaghan's statement about unilateral disarmament could not be truer — unilateral nuclear disarmament is impossible. Its political and military consequences would be disastrous, because Britain is one of the most significant members of the Western alliance. But what does Mr. Callaghan mean when he indicates that Belgium, the Netherlands and Denmark are not?

Britain in our century can win pyrrhic victories against countries such as Argentina, but it cannot survive alone. Its economic, political and military sectors are not strong enough. Britain must ask itself where it stands. For myself, I am a European for a strong, independent Europe.

MAX-OLIVIER CAHEN.

No Shame in a Pause

Because once or twice in the debate against Walter Mondale, President Reagan paused momentarily, critics screamed, "He's slipping, it's his age!" Do they want a president who yammers like a Xerox machine? Walter Mondale, with nothing to defend, can be glibly accusatory. Responsibility demands more careful expression. The logic of Mr. Reagan's replies seems to have been lost in the clamor for smooth machinery noise.

R.H. MacKENZIE.
Bromsgrove, England.

A Bush-Ferraro Tally Sheet

In the vice presidential debate, so far as a mastery of the facts of foreign policy is concerned, who won? Vice President George Bush said a good deal that could be argued with — the administration's standard, defensive positions on the multiple Lebanon bombings and on the stalemate in arms control with the Soviet Union, for instance — but he said it in a way indicating an easy familiarity with the material and a competence befitting his long experience in international affairs. Not much that was factually questionable; the likeliest item was his placement of blame for the collapse of the "walk in the woods" formula for reducing nuclear missiles in Europe. The Russians, said Mr. Bush, "gunned it down first."

There is contention on that point from experts. He asserted that the difference between Nicaragua and El Salvador on human rights is one of "night and day," saying the former is "devoid of human rights" and the latter is "struggling to perfect [its] democracy." This is the rationale for the administration's hard line on Managua and its favor for President Jose Napoleon Duarte of El Salvador, but the Bush formulation overstates the case.

Representative Geraldine Ferraro was not compelling in this area. There was a moment of suspense when the Democratic vice presidential candidate, whose knowledge of foreign affairs comes mostly from briefings, set herself the task of listing the members of the Con-

dors group. She got it right, but otherwise, she did not handle Central America in a reassuring manner. She was wrong when she said the administration "has not been pushing" El Salvador on rights. You could argue whether it has been pushing hard enough, but it has been pushing. Nor did she seem to understand that, unlike El Salvador, Honduras and Costa Rica are not countries that Washington must "put all kinds of pressure on" to shape up. Neither is menacing; Costa Rica is a model democracy.

Ms. Ferraro was tough and sure in attacking the administration on the Lebanon bombings. Generally, she was ready on war and peace, but provided a telling glimpse of her inexperience. Asked whether the Russians might try to take advantage of her as a woman, she gave a jarring, unnecessarily explicit reply, posing [her questioner had not] the question of a nuclear challenge and saying she would meet it "with swift, concise and certain retaliation."

Ronald Reagan would have been lynched for saying something like that. She erred in saying that Walter Mondale as president would challenge Moscow to halt nuclear testing "in the atmosphere." Tests in that environment were banned in 1963. She returned to the point and got it right on the second pass. In the area Ms. Ferraro describes as her main concern, she is not up to the speed that she rightly demands of a president.

—THE WASHINGTON POST.

Earned Honor for Carter

Jimmy Carter richly deserved every accolade he received on his visit to Argentina last week. At home the former president may be something less than honored these days, but in Buenos Aires he was hailed as the architect of a human rights policy that saved countless lives during the Argentine travails of the 1970s.

It is easy to neglect the dimensions of the Carter achievement. A war was on in Argentina. It was begun by cold-blooded terrorists but pursued by a military leadership that in its blind and single-minded riposte lost its sense of justice, proportion and responsibility to the people the armed forces supposedly protect. Thousands of Argentines were swept up without a semblance of due process and were tortured, murdered or made to "disappear."

Jimmy Carter, by public condemnations and unpublicized interventions, by reducing military aid, by repeatedly (28 times) opposing development loans, mobilized heavy pressure against the Argentine junta's unspeakable violations. Whether the junta eased up because of this or because it concluded that it had crushed its enemy is a fair question. Unquestionably, Mr. Carter did what had to be done.

A "war" of another sort was on in Washington — between Mr. Carter and his human rights aides, and persons in the bureaucracy, Congress and elsewhere who felt that his crusade undercut traditional ways of diplomacy and traditional U.S. foreign policy interests, such as security and commerce. Mr. Carter himself was sobered to find the Argentine junta resisting when he set out to organize a grain boycott of the Soviet Union after its invasion of Afghanistan. His vice president, Walter Mondale, has recently acknowledged that the Carter rights policy was "a little preachy" and lacked the integration with security considerations that would have made it "more sustainable and more credible."

These are by now familiar criticisms, and they have some merit. But they take nothing away from what Mr. Carter did in Argentina. A finely tuned, balanced policy might have served better every U.S. interest except the overwhelming one of saving lives. Mr. Carter was strong and loud and pushy and preachy in Argentina. The striped-pants set went up the wall. They were wrong and he was right.

—THE WASHINGTON POST.

Two Elections Are Going On; Reagan May Lose One

By Kevin Phillips

WASHINGTON — The last two elected Republican presidents to seek a second term — Dwight Eisenhower in 1956 and Richard Nixon in 1972 — won landslide victories themselves, but the Republican Party gained little or nothing in the congressional races in those years. That shortfall left House and Senate Republicans unable to give the president the second-term support he needs to carry out his policy agenda in Capitol Hill.

That helped speed Eisenhower's evolution as a lame duck in the late 1950s, and it helped leave Mr. Nixon wide open to congressional Watergate forays in 1973-74.

My point is that post-World War II Republican presidents who have been able to win only personal reelection victories, and who have been thwarted in trying to structure a broader new politics, have found their second terms a source of disappointment and frustration.

Democrats may be making meaningful October gains. Not only did Walter Mondale's substantial success in his first debate with President Reagan improve his weak image, it raised new doubts about Mr. Reagan. This is an obvious blow to Republican ambitions. No party can posture itself as the wave of the future while its incumbent 73-year-old president is being scrutinized for the onset of sen-

ility. Almost by definition, the age issue works against reelection.

Vice President George Bush's confrontation Thursday night with his Democratic rival, Geraldine Ferraro, was also relevant. Public reaction to the two vice presidential candidates may not greatly affect the votes cast for the Reagan and Mondale tickets, but the public's reaction to Mr. Bush — who by most polls is the favorite to be the Republican Party's presidential nominee in 1988 — must inevitably influence the public's view of whether the Republicans should be promoted to majority status.

Polls last month suggested that many Americans were beginning to contemplate that promotion, but attitudes this month seem less favorable.

Much the same thing happened in 1972, the year the Democrats flirted with long-term disaster by nominating George McGovern for president. Polls in September profiled a voter mood on the verge of creating a broad Republican opportunity extending far beyond the re-election of Mr. Nixon. Then in October the Watergate scandal began to take on serious dimensions and the public began to pull back from its flirtation with a new mandate and a new majority for the Republican Party.

In Britain, Labor Bans the Bomb, Hurts Its Chances

By Peter Pulzer

OXFORD, England — At its recent annual conference, Britain's Labor Party banned the bomb and intermediate-range missiles. It has done so before and will do so again — something that tells us a little about the state of the Western alliance and a great deal about the state of the British left.

Most political parties have their litmus test of ideological purity; in the Labor Party it is the question of war and peace.

In reaffirming its belief that bombs are bad, Labor brushed aside a warning against "political amnesia" that its leader, Neil Kinnock, uttered in his keynote speech. Amnesia in this case refers to Labor's disastrous defeat at the polls last year, and the reasons for it.

Even with a different defense policy, Labor would probably not have won that election. But the two biggest nails in its coffin were speeches a few days before polling day by its defense expert, Denis Healey, and former Prime Minister James Callaghan in which they said that, contrary to their party's declared platform, Britain should not give up its Polaris submarines without a Soviet quid pro quo. Mr. Healey and Mr. Callaghan dramatized what everyone knew already: The party was deeply divided on defense policy in general and on nuclear weapons in particular.

That is the inevitable effect of litmus tests. Designed to unify a movement around the enthusiasts' battle cry, they merely confirm that the silent majority is also an ideologically impure majority. At no time during the election campaign did more than one-fifth of voters favor unilateral nuclear disarmament; at no time did more than one-third of Labor supporters favor it.

The explanation for this is that the Labor Party embodies not one but two foreign policy traditions: of anti-war humanitarianism and of popular patriotism. For most of its history the first has predominated. It is only at moments of national crisis that the second displaces it. Many party founders were pacifists. Labor leaders opposed British entry into World War I, although without support from the party majority. Between the wars Labor supported collective security through

the League of Nations. This was in many ways an escape from hard decisions. It enabled the party to vote against the Conservative government's fairly modest defense budgets until 1937, four years after Hitler had come to power. The coming of the nuclear age merely intensified the debate.

This distrust, not only of armaments but also of any active foreign

policy, has deep roots in the Anglo-Saxon radical tradition and the nonconformist conscience. Wars, it is argued, benefit not the people but only the military, the merchants of death and purveyors of power politics. Wars happen because democracy is imperfect; the solution therefore lies in domestic politics.

The aim of the left must be to subordinate the makers of foreign policy to democratic control by depriving them of the instruments of power.

How much truer this is of the nuclear age, which gives absolute power to the presser of the button. The embodiment of working-class patriotism was Ernest Bevin, who in 1935 derided Labor's Christian pacifist leader, George Lans-

bury, for "taking your conscience from body to body asking what you ought to do with it"; who, as minister of labor, was the mainstay of Churchill's wartime cabinet, and who, as foreign secretary after 1945, was the intellectual godfather of the Marshall Plan and the North Atlantic Treaty Organization.

Why, then, has the party of Bevin become the party of Michael Foot, more of the popular-patriotic constituency, and half its pro-NATO leaders have deserted to found the Social Democratic Party. Labor's left has secured a bigger hold on a smaller party.

Unless there is an unprecedented change in the world situation and British public opinion, a unilateralist Labor Party cannot win an outright electoral victory. If, against the odds, it did win it would come against every utopian's nightmare: the constraints of the real world.

Britain is not New Zealand, whose actions can leave the general security balance largely unaffected. The Labor Party conference may have voted against nuclear bases, British or American, but it voted for strengthening conventional forces and for staying in NATO. It stopped well short of neutralism and pacifism.

Socialist parties in power — whether in France, Italy, Spain or Greece — have not reneged on national commitments. Any Labor government in Britain would have Denis Healey, a veteran Atlanticist, as foreign secretary, and other Atlanticists in senior posts. It is one thing to pass resolutions in the free air of opposition, another to implement them in the prison house of interdependence.

The writer, Gladstone professor of government at Oxford, wrote this column for the Los Angeles Times.

'Ugly Concept of a Winner' in Nuclear War

LOS ANGELES — In the course of George Bush's debate with Geraldine Ferraro last Thursday, this exchange occurred between NBC News correspondent Norma Quarles and Vice President Bush:

Question: You were once quoted as saying that a nuclear war is winnable. Is that still your belief? And if not, under what circumstances would you use nuclear weapons, if you were president?

Answer: No, I don't think it's winnable. I was quoted wrong, obviously, because I never felt that.

The statement Mr. Bush denied making was part of a tape-recorded interview conducted in January 1980 by Robert Scheer, a Los Angeles Times correspondent. It appeared as follows in the Times of Jan. 24, 1980:

Question: Don't you reach a point with these strategic weapons where we can wipe each other out so many times and no one wants to use them or be willing to use

them, that it really doesn't matter whether you're 10 percent or 2 percent lower or higher?

Answer: Yes, if you believe there is no such thing as a winner in a nuclear exchange, that argument makes a little sense. I don't believe that.

Question: How do you win a nuclear exchange?

Answer: You have a survivability of command and control, survivability of industrial potential, protection of a percentage of your citizens, and you have capability that inflicts more damage on the opposition than it can inflict upon you. That's the way you can have a winner, and the Soviets' planning is based on the ugly concept of a winner in a nuclear exchange.

Question: Do you mean 5 percent would survive?

Answer: More than that — if everybody fired everything he had, you'd have more than that survive.

Los Angeles Times.

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On Stopping A Bolt From The Blue

By William Safire

WASHINGTON — Eighteen months ago, in the informal talks after a nuclear arms-control treaty, a Russian negotiator said casually to an American counterpart: "What if Qaddafi got the bomb?"

In response, the American merely smiled — such a prospect is one that all of us hate to face — but he did note the Russian's concern about the possession of a nuclear device by a terrorist state.

Today, the successful escalation of terror tactics against the United States, by fanatics in the Middle East, is the most serious campaign against President Reagan. At the same time, the close call of the Munich massacre and her subsequent death has driven home to Europe the rising threat of terrorism.

Preventing terrorism ahead of time is a tall order. After we figure out a way to stop trucks and hand-delivered bombs, we must expect the terrorists to improve their delivery systems. A West German company has developed the components of a medium-range missile to the Libya, only the one cockeyed optimist thinks that some states will not be able to buy one.

Logic suggests that some of the most serious threats will be made by the successor to the Libyan state. It is not one day, but a month that can take it to the next.

In some future, a state leader will tell Washington: "Moscow, that unless some action is made, a world capital will be destroyed. Retaliation would be nothing to a suicidal bomber."

What would be the result? In the missile-based helplessness of a country, a man who welcomes the state's destruction.

We are turning away from the question of security in our world. We are turning away from a rational superpower and the great power of an escalation of a conventional war. But we are not turning away from the world. We are turning away from the world.

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Mehmet Ali Agca: From Frustration to Terrorism

(Continued from Page 1)

met Ali, then 15, came into contact with the Gray Wolves — the militant youth wing of the extreme rightist National Action Party.

"Agca is a very Turkish monster," said Haluk Sahin, editor of the Turkish newsweekly Nöktä. "In order to understand him, you also have to understand the Turkey of the 1970s. These were the years of social frustration and disappointment that followed the rapid economic growth of the 1960s. For a Turkish youth, joining a terrorist movement was like acquiring an identity."

Sociological studies in Turkey have shown that leftist and rightist activists shared similar attitudes. For most young Turks, membership in a political clan was more a matter of chance and social compulsion than personal conviction.

"It was like that in those days," said Yalcin Ozbey, an Agca associate from Malatya, when asked in an interview in West Germany, where he now lives, to explain why he became a Gray Wolf. "There was a kind of blood feud going on. You were practically forced to join one side or the other."

The Gray Wolves controlled the part of town where Mr. Agca lived. He was also a Sunni Moslem and many Sunnites tended to be rightist, while their religious rivals, the Alawites, were generally leftist.

Political agitation in Malatya was fueled by the province's economic backwardness, as disparities in wealth became increasingly visible through television and modern communications. According to Ismail Kovaci, a Turkish journalist who has researched Mr. Agca's background, resentment fostered his desire to find a short cut to worldly success.

"Agca suffers both from jealousy and delusions of self-grandeur," Mr. Kovaci said. "For him, terrorism represented a way of leaving his mark on the world."

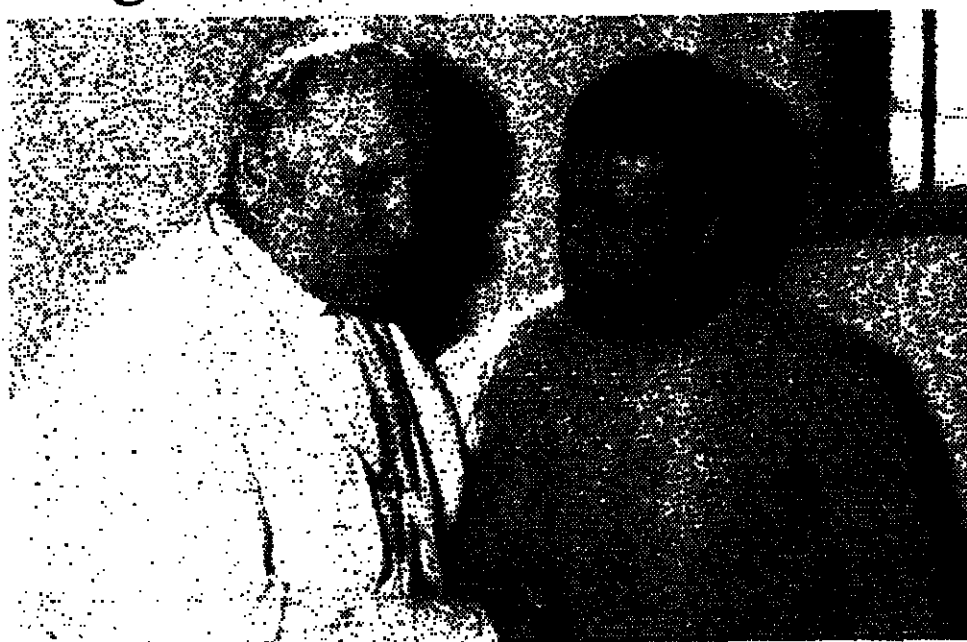
Many people who encountered Mr. Agca both in Turkey and in Italy have spoken of his "Carlos complex" — his image of himself as a top-flight international terrorist. His desire for personal publicity seems unquenchable. At one point in the Italian investigation, he refused to talk further when magistrates refused his demand that journalists be present as he "confessed."

By the age of 18, Mr. Agca had abandoned an early ambition to become a teacher, but in the fall of 1976, he enrolled in the history and geography department of the University of Ankara, staying in a rightist-controlled dormitory.

The extent of Mr. Agca's involvement in the political clashes that then dominated student life is not clear. In testimony to Italian magistrates, he stated that in the summer of 1977 he traveled to Syria and Lebanon with the help of Turkish leftist terrorists for training in Palestinian refugee camps. There is no concrete evidence to support this claim.

There is evidence, however, that between December 1977 and January 1979, a total of 360,000 Turkish lire (about \$15,000 at the exchange rate then) was paid to bank deposits in Istanbul and Malatya set up in Mr. Agca's name.

After refusing to reveal its origin, Mr. Agca now says the money came from a smuggling operation that he and a group of friends organized in Istanbul. The aim of the operation, he told Turkish magistrates who visited him in Italy, was to fund a political organization to



Pope John Paul II talking with Mehmet Ali Agca in his prison cell in Rome last December.

"undermine the Western democracies," including Turkey.

By Mr. Agca's account, the "organization" consisted of a group of youngsters from the Malatya region. Most of them have since been identified in one way or another with the Gray Wolves: Oral Celik, Yalcin Ozbey, Yavuz Caylan, and Mehmet and Hasan Sener.

The controversial relationship between the Gray Wolves, ostensibly a political organization, and the band of smugglers known as the "Turkish mafia" is central to the mystery of whether Mr. Agca and his friends were manipulated by outsiders. It has been studied closely by Turkish and Italian investigators seeking clues both to Mr. Agca's still unsolved murder and the attempted assassination of the pope.

During the 1960s and 1970s, smuggling of all kinds of goods, from cigarettes and coffee to copper and guns, became organized business in Turkey. The overpopulated domestic economy was in chaos, corruption was rampant, and import and export regulations were strangled in red tape.

Abuzer Ugurlu, known as "the godfather," was born in Malatya province, and by his late 30s was wanted in half a dozen European countries on suspicion of being the leader in an illicit trade of arms, cigarettes and narcotics to and from Turkey.

Much of Mr. Ugurlu's business seems to have been conducted through Bulgaria, which straddles Turkey's transportation lines with Western Europe. According to testimony from fellow smugglers, he illegally imported weapons into Turkey with the connivance of the Bulgarian authorities — a crime for which he was convicted in 1974 and later released under a Turkish government amnesty.

For this smuggling operation, Mr. Ugurlu needed agents in the Turkish Customs Ministry. It is now known that key customs posts were infiltrated by supporters of the extreme rightist National Action Party, the political wing of the Gray Wolves, during the late 1970s.

It was a self-serving relationship. Mr. Ugurlu's interest was making money, but he needed political protection. The National Action Party, whose leader, Colonel Alparslan Turkes, served as deputy prime minister in successive conservative-led coalition governments between 1975 and 1978, needed funds for his political aims.

Mr. Ugurlu is now on trial in Turkey on charges of helping to plan Mr. Ipekci's murder and assisting in Mr. Agca's escape from prison by providing financial support to his group. Evidence for Mr. Ugurlu's involvement in the murder rests largely on Mr. Agca's testimony.

Mr. Agca's assertion that he and his friends received funds from the "godfather" is to some extent supported by the fact that Mr. Ugurlu can be shown to have authorized a payment of 2,000 Deutsche marks (then about \$800) to Mr. Agca in Bulgaria in July 1981.

It is now up to a Turkish court to decide whether Mr. Agca is telling the truth when he claims that Mr. Ugurlu was involved with his group well before the Ipekci murder. The "godfather" has denied meeting Mr. Agca, but he has acknowledged that he had contacts with other Gray Wolves.

Proponents of a "Bulgarian connection" to the pope plot have argued that the Turkish mafia used Gray Wolves like Mr. Agca to do their dirty work and were in turn used by the Bulgarian secret service. When the Bulgarians needed a hit man to kill the pope, this theory runs, they asked the Turkish mafia to act as intermediaries.

This version has been disputed by independent Turkish researchers such as Orhan Oymen, formerly chief investigative reporter for Milliyet, Mr. Ipekci's newspaper, a leading authority on Mr. Agca.

"My opinion is that it was the other way around. It was the Gray Wolves who were in a position to ask favors from the mafia. They were the ones with the political influence at the time, because of their control over the customs administration," Mr. Oymen said in an interview in Bonn, where he now works as the paper's correspondent in West Germany.

Abdi Ipekci was murdered on the evening of Feb. 1, 1979, as he drove home from his office in Istanbul. Witnesses spoke of a team of two or three assassins escaping in a getaway car.

Mr. Ipekci's newspaper, Milliyet, had been regarded as a leading voice for tolerance and national reconciliation and his death seemed to confirm that there was no place in Turkey for political moderates.

Mr. Agca's testimony about the Ipekci murder has gone through various transmutations. The tactics he employed with his Turkish inter-

rogators provided a foretaste of his answers when questioned in Rome about the attempted assassination of the pope.

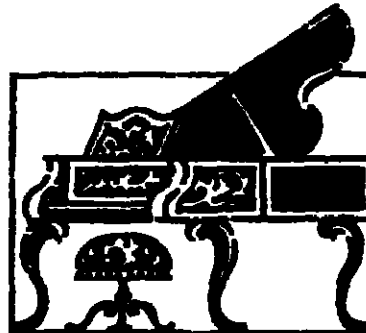
In Turkey, his initial reaction was to say that he alone had murdered Mr. Ipekci. He then admitted that he had accomplices, but assigned them a different role in the plot with each successive interrogation. He now claims he did not kill Mr. Ipekci but took the blame to cover up for his friends.

Soon after his arrest for the murder of Mr. Ipekci, Mr. Agca told a Turkish military judge that the mandatory sentence of death "will never reach me." On Nov. 23, 1981, he escaped from the Kartal-Maltepe military prison in the uniform of an army private that had been provided to him by a guard.

The mechanics of his escape provide important pointers to the identity of his close accomplices. Almost all those who assisted in his escape, who hid him in Ankara, and then supplied him with a false passport to travel to Iran was associated in one way or another with the Gray Wolves. Many of them came from Mr. Agca's own region of Malatya.

A prison guard, Bunyamin Azyilmaz, has confessed to Turkish magistrates that he led Mr. Agca out of the prison in return for a \$4,000 bribe and because they both

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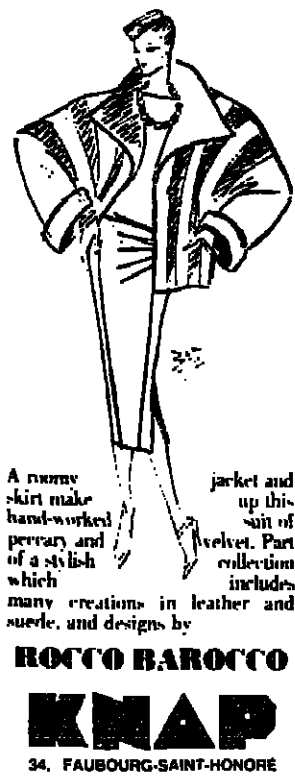
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ARTS / LEISURE

Milan Showings Set Off Revival of Prints and Color



A runway skirt made hand-worked jersey and of a silk which includes many creations in leather and suede, and designs by

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ACCORDING to a cross section of American buyers who were in Milan last week, prints and color were a major story there, as well as new, more feminine proportions. Prints, which were all but extinct, had a spectacular revival, making solids suddenly dull. With Paris designers reportedly emphasizing prints (with even sequined ones), there are all the signs of an international trend. A recent retro-

HEBE DORSEY

spective at the Musée de la Mode et du Costume in Paris, called "L'Impressionisme à la Mode," may well have sparked the whole thing.

Prints are also part of the return of color, which has swamped daytime clothes and is gradually spreading to evening. After last year's solid sea of black dresses, women are now ready for something more jolly.

Hot colors after dusk still seem hard to take, however. Princess Caroline of Monaco had the perfect answer at a recent Moulin Rouge gala at which Frank Sinatra sang. She wore a strapless Dior dress in a cheerful black and green print.

In Milan the most striking prints, according to buyers, were at

Versace's, Byblos's, Genny's and Fendi's — the latter designed by Karl Lagerfeld. These prints were not the bashful kind. They were all strong, big and colorful.

"Karl Lagerfeld did exceptional prints for Fendi," said Karl Rutenstein, Bloomingdale's vice president of fashion direction. "Some were graffiti-inspired. Others were on a black background with bright colors — in the spirit of what he used to do for Chloe but with the initials 'KL' worked into them." Rutenstein said both Lagerfeld and Versace had mixed two or three different prints in the same outfit.

Still at Fendi's, Rutenstein also mentioned face prints, inspired by Jean-Paul Gaultier. Lagerfeld told the editor of French Vogue, Francine Crescent, that he had worked out his prints with paper cutouts, which explains why some of them ended up looking like kaleidoscopes. Byblos showed exotic South Seas multifloral prints.

Selma Weiser, president of Charivari's women division, was raving about Versace's mixture of black and white stripes with paisleys. Other prints, she said, were lush, black-and-white florals, and still others were thinly outlined and more like giant sketches.

Bergdorf-Goodman's president, Dawn Mello, confirmed that prints were big in Milan.

"Fendi was a good surprise," she said, "a very upbeat collection, full of prints."

Milan designers, taking their cue from Paris, also abandoned beige and went for very strong yellows, oranges, greens, fuchsias, reds and purples. Claude Montana did the whole Complice collection in strong pastels.

On the whole, American buyers were pleased with Milan. Mello said, "Milan opened up and there was a lot to buy."

According to Rutenstein, "Milan was pretty good. There was a lot more variety than usual, much more color. There are new proportions, shorter skirts and longer jackets."

"It seems as if everybody is going away from menswear as we know it. Even Armani, who had a brilliant collection but whose success is rooted in men's wear, took all the seriousness and pompousness out of it. His approach was lighthearted and casual."

Lynn Manulis, Martha's president, said that menswear (shown by international designers six months ago and now in the stores) was "a hard sell" and welcomed "a

more interesting and more feminine scene in Milan."

"We've got a big mix of looks," said Manulis, who loved Ferre. "His colors were fabulous and jackets so new — simple yet intricate."

Stronger silhouettes also impressed Sonia Caproni, vice president of fashion merchandising for I. Magnin.

"Essentially, the menswear last season really dealt with a lot of different fabrics," she said. "This time, there were more silhouettes and less fabrics. I think a woman does shop by silhouette first. She buys a shape that looks good on her."

Caproni found Armani "very exciting, with 25 different jackets," and Ferre very much in control, with his whole collection worked around a shirt theme.

"There is a change of proportions since last season," she also said. "The jackets, instead of looking three sizes too big, are beginning to look almost too small, closer to the body, sensational."

With a strong dollar, all stores

were planning on spending more money on European fashion. Bloomingdale's is concentrating on Italy because the store's next promotion in September 1985 is called "Ecco l'Italia."

Meanwhile, buyers are always on the lookout for fresh talent. According to Sydney Bachman, fashion director for Bergdorf-Goodman, two interesting collections in Milan were designed by two young French people.

"Callaghan was designed by Christian Lebourg, who worked at Dior's," she said. "He showed a very clean, simple and uncomplicated look. Another young designer, Martine Sibon, had a collection very '60s in feeling, with geometric, Op art, black and white prints. The latter's collection is produced by Franco Mattioli, who also produces Ferre."

In Paris, the Fédération Française du Prêt-à-Porter Féminin is trying to push new names, with Tuesday's showings devoted to eight up-and-coming new designers.

DOONESBURY



Somber 'Little Steven' Takes Tunes to South Africa

By Michael Zwerin
International Herald Tribune

PARIS — Originally known as Miami Steve Van Zandt, although he comes from Asbury Park, New Jersey, and as far as official records show never lived in Miami (Ohio or Florida), he built an enthusiastic following over seven years as guitarist with Bruce Springsteen's powerhouse E Street Band.

Two years ago he went out with his own band, Little Steven and his Disciples of Soul. His first album, "Men Without Women," was punchy, hard-driving blue-eyed soul dedicated to swing at any price and without much noteworthy other than energy.

But this year's "Voice of America" is tempered by a personal and apparently unique — in rock 'n' roll — political point of view based on a passionate internationalist message. Steven considers rock "motivation more than entertainment" and the album's title is intentional ambiguity between radio station propaganda and his vision that patriotism extends beyond borders to the common ground human beings share.

That puts him in lonely space. "Do you know any other rock artist working in global politics?" He wore a glum look. The babushka-like kerchief he always wears makes him resemble a perpetually scowling Gypsy. There were three smiles, stretching the definition: in a one-hour interview.

He says his new record is a statement he's been waiting his entire life to make, and internationalism is at the root of it. "The whole philosophy in America is completely wrong now. I consider what they call the New Patriotism just old-fashioned blind nationalism. As long as our economy is strong, who cares at whose expense it is? Nobody cares what goes on beyond our borders. It's very distasteful to me. It's mass manipulation. America has never been as manipulated as it is now. And the American people love it. Isn't that a shame?"

"As far as I'm concerned, you're



Singer Van Zandt: "I want to bother the hell out of them."

only as successful as your hungriest child. What's this talk of economic recovery when you have millions of people starving? What kind of country is that?"

So he is more interested in foreign markets than most rockers. "I think it's important for Europeans to know that there are some Americans who do not want to make their homes the next battle ground."

The basic premise of his work is to reach an audience beyond U.S. borders. He is proud of being on the Swedish charts. He's been in Europe three times last year and twice this year, playing the Rock Palast TV show in West Germany twice. He said, "I took the last money I had out of the bank to get here this time. And I don't care. I'd

do it again. They say you can't do it this way. You have to have a hit and then go. I say I don't work like that. I'm not going to have a hit. I don't fit in. People have to get used to me."

Last week he ended a two-month European tour at a jam-packed Casino de Paris. This week he is in South Africa, alone, "to start re-searching my next album. Not to perform. To look around. To speak to all sides, exchange points of view. But I see certain contradictions there."

What Little Steven has to say may be controversial. But a bona fide rock star who thinks for himself is a rare and endangered species, worthy of protection.

"What's happening down there, from what I hear, is that we are punishing the people we are trying to help. The cultural boycott began because of what was considered exploitation of the black audience by white promoters. This is a legitimate objection. But recently an integrated South African band came to London and were picked. That's insanity. What does it accomplish? It's grown out of hand. If the information I'm receiving is correct, I can go down there, self-promote and play for integrated audiences."

"I think it's essential to keep lines of communication open. You go to Soweto and see those kids and think how isolated they are. That's very wrong. I want to go down there without a promoter and sing my lines like 'Everything we stood for has been compromised' and 'I been quiet, too quiet,' and songs like 'Solidarity' and 'I am a Patriot.' To picture maybe 1,000 blacks and whites in a hall all raising their fists singing 'Solidarity' is a bit more meaningful than not going."

"Look," he said, "everybody likes to dance. That opens lines of communication. If you got something to say, they'll listen. Maybe not every night or every word, but keep hitting it and you'll get through. What other art form communicates so internationally? Rock 'n' roll is not just entertainment. Entertainment is cool. There's a place for that. I'm not putting it down. But there's also an opportunity to do much, much more."

"My music is emotional. That already puts me in the minority. Then it's political. That knocks off another, like, five percent. People have gotten used to rock as background music. But you can't put on my record and ignore it. You got to listen. That may be good from my point of view but not from the point of view of a radio station whose only point of view is selling people Toyota's. Just keep them tuned in. Don't bother them. I want to bother them. Yeah, man. I want to bother the hell out of them."

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Hot Off the Presses: New Edition of Hieroglyphics

By Vicky Elliott
International Herald Tribune

PARIS — Michel Sidhom looks a little like Akhenaten, with a high brow and a curled lip, and he, too, was born in Egypt, to a Coptic family.

For the past two years Sidhom has been answering a self-posed riddle — how to reproduce the volume in which Jean-François Champollion put the meaning back into the hieroglyphs.

"General Principles of Egyptian Sacred Scripture," published in 1841, is a text of some weight, and if not carved in stone, it remains almost impossible to find today. The Louvre has one copy, which Sidhom borrowed. Better yet, in the dusty Bibliothèque Nationale he tracked down the original manu-

script in Champollion's own hand. "Nobody," he said recently, "seemed to know about it, and nobody had ever reproduced it."

It spells out, in 580 pages, the logic of the figures that march across the sarcophagi and the steles, a logic that was lost for more than a thousand years. And it remains an important key to the life of the priests and the pharaohs, making sense of the rippled water and the quills, the lotuses and ibises, that live on in the graves of the Valley of the Kings.

Champollion, who as a young French Egyptologist of 32 pieced together the puzzle in 1822 with the help of the Rosetta Stone, died prematurely 10 years later, leaving his brother to publish his work.

Sidhom, a French journalist of



Some of Champollion's handcolored hieroglyphics.

32 and no Egyptologist himself, wanted to publish a new edition.

Encouragement came from Christiane Ziegler, curator of Egyptian antiquities at the Louvre and, as such, one of Champollion's successors.

It was Ziegler who wrote the preface to the volume to be released Oct. 25, a cloth-bound facsimile of the 1841 version, embellished with reproductions of the 15 illustrated pages of Champollion's manuscript, six of them faithfully colored by hand.

Sidhom decided to print 5,000 copies of the volume, supplementing his own funds with a loan from the French National Center of Letters and hoping that the price, 630 francs (\$72), would make it relatively accessible to the general public.

He bought 20 tons of paper of the highest quality, 100-percent cotton fiber, because he wanted it to last, and insisted on the most resistant glue and ink on the market. He chose, for the illustrated inserts, to patronize one of the printers in France to use the venerable colotype process, usually reserved for high-quality artistic prints, which etches a bichrome into a highly sensitive film of gelatin and, for fidelity to an original, beats photo-offset to a pulp.

To color the hieroglyphs, for which Champollion himself brought out his paint box, Sidhom enlisted the best British watercolorists, guaranteed to hold fast, and the services of André Jacomet, who runs one of the last workshops in France that still does illumination work with stencils.

It is an art that began to fade out with the hand-colored picture postcard, but Jacomet's small team is still there in a small, cobblestone courtyard, working with what look like huge colored powder puffs. The stencils of this zinc.

In an acknowledgment of more recent developments in graphic systems (Sidhom admits it is a gimmick), it was decided that everyone who cared to own a copy of the book could paste into it a bookplate with his name inscribed in hieroglyphs, using a computer program recently developed by another French Egyptologist, Michael Haimsworth.

Don't expect a pharonic caricature: each letter is all too literally represented by a symbol, making mimetic of the ancient Egyptian. But, like the little personages that illustrate the book itself, they have a certain surreal charm.

Sidhom will be launching the new edition at the Salle de Champollion in the Collège de France on Oct. 24. He is also hoping to organize a small happening on the Place de la Concorde, drawing on Champollion to decipher its chiseled obelisk, which was inscribed 33 centuries ago.

U. K. Opera Company in Debt

The Associated Press

LONDON — The English National Opera's triumphant six-week tour in the United States this spring has placed the company in debt, allegedly because the governor of Texas failed to raise money promised by sponsors, a London newspaper has reported.

The opera company, which won nightly ovations in Houston, Austin and San Antonio, and later in New York City, has reported a deficit from the tour of £650,000 (about \$800,000). The Observer said Sunday.

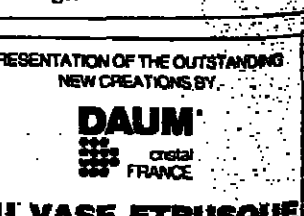
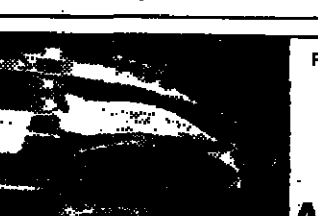
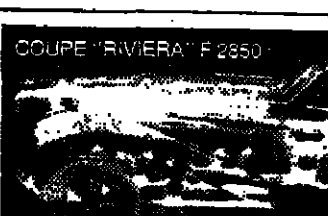
The weekly said the group embarked on its May 24-June 30 American tour knowing that at least a quarter of its budget was not guaranteed.

It said the company had received a pledge from Governor Mark White to raise \$750,000 but ended up with a check from him for only \$23,000.

The governor, according to the paper, pledged the support after he had asked eight major sponsors, including American Airlines, Texaco and Exxon to each contribute \$100,000 toward the tour.

So far, the sponsors have failed to respond to appeals to honor the governor's assurances, The Observer said.

The company is Britain's most highly subsidized arts organization, with almost three-quarters of its estimated £10-million total expenses this year paid by government agencies. The rest is raised at the box office.



Tokyo Draw From

BANKING AND FINANCE IN ASIA

A SPECIAL REPORT

TUESDAY, OCTOBER 16, 1984

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Tokyo Deregulation Draws Criticism From Some Banks

By Richard C. Hanson

TOKYO — Over the last 12 months Japanese banks have looked on with some uneasiness at the Finance Ministry's decision to open the Japanese financial market to international competition.

This is especially true of the Finance Ministry's decision this spring to adopt what amounts to a near laissez-faire stance toward the international yen syndicated-loan market. Accustomed to competing under the gaze of official referees and at virtually guaranteed profit margins, banks are having to cope with what one official describes as "perfect freedom" in a market that not too long ago was strictly controlled.

As institutions, they are even more concerned about what happens when the Finance Ministry lifts its ban on Euroyen lending with a maturity longer than one year (short-term Euroyen loans were liberalized earlier). A decision to free up medium-term Euroyen loans could be made as soon as year's end. At the latest, it will happen some time by mid-1985.

In practice, medium-term Euroyen loans are readily being arranged outside Japan by non-Japanese banks for Japanese clients abroad. But when the official restrictions are lifted for Japanese banks, the impact will be like that of a mild tremor knocking over shaky vestiges of Japan's rigid postwar financial system, including the nation's much-honored but archaic fixed long-term prime rate (LTPR) system.

The LTPR (currently 7.9 percent per annum) is the most coveted tool of Japan's powerful long-term credit banks. It served as a crucial linchpin in the financial system throughout the postwar economic boom, having been held relatively stable over most of the postwar period.

Unfortunately, in an era of deregulation, the LTPR bears no relationship to genuine market rates. (It is fixed at a margin above the cost of long-term credit bank debentures, which are the banks' major source of funds.)

With demands for loans chronically low in Japan, it should come as little surprise that the majority of top-ranked Japanese companies are able to borrow at cost levels far below the long-term prime rate. Indeed, only about half of all bank loans are actually made at the prime rate, according to the Bank of Japan.

What should be surprising is that all foreign borrowers in the yen syndicated-loan market still do pay at the long-term prime rate, or at a small margin above it. In other words, IBM Japan Co. in Japan could probably raise yen at about 7 percent, but the parent IBM would have to pay 7.9 percent plus for yen. That is one reason that only one foreign company so far has tapped the market.

Japanese banks can argue that this has not discouraged foreign borrowers. Many appreciate being able to raise 10-year money at fixed rates. And borrowing yen is still much cheaper than borrowing dollars, by about 4 percentage points.

Since April this year, when the Finance Ministry lifted limits on how much yen banks (Japanese and foreign) can lend abroad, there has been a surge in volume. From April to September, such loans have been

(Continued on Next Page)



Shoppers in a Seoul market, above, and in Singapore, below.



Donor Nations' 'Aid Fatigue' Pushes Development Banks to New Sources

By Dinah Lee

HONG KONG — The phenomenon of "aid fatigue" in donor countries lending to developing countries has been around for many years now, leaving development banks looking for new ways to fund their projects. Their solution is to turn toward the private sector — to commercial banks, the Eurodollar market or to equity investment in smaller financial institutions in the borrowing countries themselves.

The development banks' quest for new sources of funds has been made more difficult by the disillusionment of the commercial-banking sector in light of debt rescheduling problems with developing countries, especially those in Latin America, where big borrowers account for about 80 percent of the total bank debt of

some 25 countries worldwide now in arrears, in the process of rescheduling debts or struggling with rolled-over loans.

In value terms, net commercial bank lending to developing countries is on a steady decline. It dropped from \$47 billion in 1981, to \$34 billion in 1982, and to \$22 billion last year. In both 1982 and 1983, it fell well below meeting the interest payment needs of these "have-not" countries.

"There's aid fatigue slowing the cash flow through multilateral institutions, a slowdown in commercial bank funds, and direct investment in these countries is limited," said the director of the industry and development banks department of the Asian Development Bank (ADB), Akira Tsusaka. "So it's very important

(Continued on Next Page)

Recovery in U.S. Fuels Growth in Eastern Asia

By Patrick L. Smith

HONG KONG — The economies of East Asia are again setting the global pace this year, despite falling commodity prices and generally weak markets at home.

All four of the region's newly industrializing countries (NICs) — South Korea, Taiwan, Hong Kong and Singapore — are expanding by at least 7 to 8 percent; Japan and most Southeast Asian nations are growing only slightly less vigorously.

The key factor in this growth, of course, has been demand for the region's exports generated by the sustained economic recovery in the United States.

The exception to this is the Philippines. The Manila government is now awaiting approval of crucial new credits by the International Monetary Fund and the country's commercial lenders. Even with these funds, however, the economy is not likely to show significant improvement for well over a year.

Beyond the impressive numbers, the region as a whole is facing an uncertain future. Depressed commodity prices are unlikely to revive for at least 12 months, and industrial exports are increasingly threatened by trade barriers.

Apart from the Philippines, East Asian borrowers have thus far had no trouble meeting their obligations. But high interest rates are adding unexpected weight to debt burdens and forcing continued reductions in spending on development projects.

Debt service is now a prominent item in the budgets of Thailand, Malaysia and Indonesia. This has encouraged efforts in these countries to improve the performance of their domestic economies.

A number of governments are also adopting monetary reforms, such as decontrolled interest rates, intended to increase domestic capital resources. But Asia's current recovery is tied tightly to the economic fortunes of the United States.

Dependence on the U.S. market has now focused the region's attention squarely on the presidential elections next month. But most East Asian capitals are looking to the November election with mixed emotions.

In part, they are hoping that Washington's increasingly protectionist impulses will subside once the elections are over — particularly if, as most expect, President Ronald Reagan remains in office. Trade friction is now of paramount concern among manufacturers, who have benefited most from the revived U.S. economy and the strong dollar. Post-election relief from these seemingly relentless pressures would clearly be welcome.

At the same time, there is concern over the effects of high interest rates on the U.S. recovery and over what policies the new administration may adopt to control

the nation's budget deficit. Slightly reduced growth rates in Asia next year are already anticipated.

Slower growth in the United States has been evident since the middle of this year. This has reinforced the reluctance of most Asian executives to make new investments based on current levels of demand. The questions now are when will the U.S. economy begin to lose momentum more dramatically and how much it will lose.

The concern is that the U.S. recovery will not be sustainable after the elections," said Chua Wee Meng, managing director of Alfa-Pacific Securities in Singapore. "Declining commodity prices are the first sign of this."

Softness in primary-product markets took hold in this year's second quarter. By last month, a range of prices had declined significantly from their end-1983 levels — sugar by 40 percent, rubber by 20 percent, palm oil by 12 percent and copper by 10 percent.

Price movements have been irregular," said Willard D. Sharpe, Chase Manhattan's regional economist in Hong Kong. "But some Asian commodity producers are clearly facing less favorable trends than at the first of the year."

Several factors explain the decline. High interest rates have discouraged consumers from building inventories and drawn speculative activity into financial instruments. The strong dollar has also forced single-product exporters — many sugar and copper producers, for instance — to increase supplies to meet their debt obligations.

More fundamentally, the U.S. recovery has been concentrated in the services and technology sectors of the economy and less in demand for traditional manufactures. And many manufacturing industries, such as automobiles, have successfully reduced their per-unit consumption of raw materials.

The impact of this trend has been uneven — although Asia has weathered it with greater ease than less diversified regions. Thailand has countered low sugar and rubber prices with increased rice exports, the price of which has remained more or less steady since last year. But exports of other commodities have been hampered by the Thai baht's close link with the dollar.

Malaysia, the world's leading supplier of natural rubber, has offset falling prices with a continuing rise in manufactured exports and by increasing production of oil and natural gas. Malaysia is not a member of the Organization of Petroleum Exporting Countries.

Indonesia, which derives three-quarters of its export earnings from its petroleum sector, has been more seriously affected. Petroleum earnings have been declining since 1981; falling commodity prices have

(Continued on Page 12)

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A SPECIAL REPORT ON ASIA

Tokyo, Hong Kong Stock Markets Expect Advance; Singapore Remains in Slump

Special to the IHT

TOKYO — Asia's two top stock markets, Tokyo and Hong Kong, appear poised to advance this quarter, while Singapore desperately needs some good news to pull out of its slump. Asian markets in general have a lot going for them. The U.S. economy is absorbing imports at a record clip, many of them from Asian makers, and Asian economic growth rates are quite respectable. The region is politically stable and the markets' track records, even after the battering of the last few years, are better than many of those in Europe.

Even so, local bores would welcome an advance on Wall Street, as a signal that U.S. interest rates have come down sufficiently to make capital gains, via stocks, a respectable alternative to high interest rates through dollar bonds. Conversely, if the American economy were to slide from its "cooling off" pattern to a distinct chill, exporters in Tokyo and elsewhere could suffer.

If the signals from New York remain neutral, however, Hong Kong and Tokyo should be able to move ahead under their own power.

Here is a look at the prospects from Asia's major bourses this quarter.

● HONG KONG — For over a year, Hong

Kong investors have faced an uncertain future.

When the clouds of the Chinese-British negotiations on the colony's future began to break, Hong Kong investors rejoiced. Since late July, an almost steady rise has carried the Hang Seng index up about 25 percent to the 1,000 level, with the final push coming as the form of an initial agreement came into view.

The accord contained few surprises, and investors have braced for a correction after the earlier rises. Nonetheless, there is a widespread view that with the political landscape stable, companies can get on with business. Business fundamentals are encouraging, and brokers expect foreign investors and fund managers who have shunned the colony to return.

Almost all brokerages are predicting that the Hang Seng index will climb to 1,500 this quarter, and a few, such as the Hong Kong Office of Vickers da Costa Ltd., are putting the upside at 1,550. For the first time in months, the question is not whether to buy, but when and how.

Some brokers say foreign investors should jump in now, to ride the surge of buying that will come as domestic investors bring their funds back home to invest in their own future. Others, though, say that a correction from the recent

gains is due, and investors can wait to buy on weakness.

Swire Pacific A makes almost everyone's list. The parent of Cathay Pacific airline has suffered long because of the uncertainties over how Beijing would treat civil aviation. Domestic-oriented companies are also in favor, with Jardine Matheson, Hong Kong Television Broadcasting, Hutchison Whampoa, most utilities and some banks drawing fans from one brokerage or another. The optimism is so widespread that it even encompasses a few hotels (Vickers likes Miramar) and properties. Among the latter, W.I. Carr, Sons & Co. (Overseas) likes Hang Lung and, for the long term, HK Land.

● TOKYO — The last weeks of September, which are the end of the fiscal first half, saw a flurry of upward revisions in full-year earnings projections by companies. Based on the good earnings prospects, domestic brokers like Daiwa, Nikko and others are predicting a stronger market this quarter, especially in blue-chip electricals and semiconductor makers. Nikko sees the Nikkei Dow Jones average rising to the 11,500 area, from its current levels of nearly 10,650.

Foreign brokers are shedding their doubts. Margin-buying balances — shares purchased on

credit that must be either sold or bought in full within six months — have fallen only slightly from the May peak of 2.78 billion yen to 2.6 billion yen now, and many of those contracts fall due in October or November. But Hank Sawa, of Prudential-Bache Securities in Tokyo, says that with domestic institutional investors "ready to pick up shares on dips," any shock from the liquidation of those positions will be muted.

Foreigners also are glad to see the market's "theme" shifting to more stable large-capitalization electricals, which have some chance of fulfilling the performance predicted of them, after the speculative "biotechnology" shares that were the rage for domestic buyers this summer. With domestic brokers recommending companies like NEC, Toshiba, Hitachi, Canon and Fujitsu, foreign analysts can comfortably agree.

The only worry is a slowdown in the U.S. economy. Japan has been shipping over 35 percent of its exports to the United States for several months now, and a drop in those exports might put a crimp in planned capital spending. Moreover, corporate forecasts are assuming that exports will at least remain high, even if they do not increase, and that worries some analysts.

particularly as semiconductor demand is expected to soften next year.

"Some of those forecasts are going to be very difficult to achieve if exports slow down," a foreign broker in Tokyo said. "It's not being talked about widely, but I've heard the subject broached."

Prudential-Bache's Sawa counters that because companies are using an exchange rate of 220 or 230 yen to the dollar for their forecasts, their predictions of about 15-percent growth are conservative. (The dollar has been in the range of the mid-240 yen lately.) And another broker notes that if domestic investors are going to focus on the next half-year's earnings prospects, foreigners more used to looking farther ahead might do well to shorten their vision.

● SINGAPORE — Volume has been so slow as to hurt commission income, prices are sliding and, with the fundamental and technical prospects dim, there is not much hope that things will improve.

The Straits Times index has dropped to around 890, and most brokers see it falling to 870, if not further. Singapore's domestic growth is sluggish, hurting virtually all sectors: banks, industrials, constructions, properties and retailers. There is little to be hoped for from the Malaysian budget, which is expected on Octo-

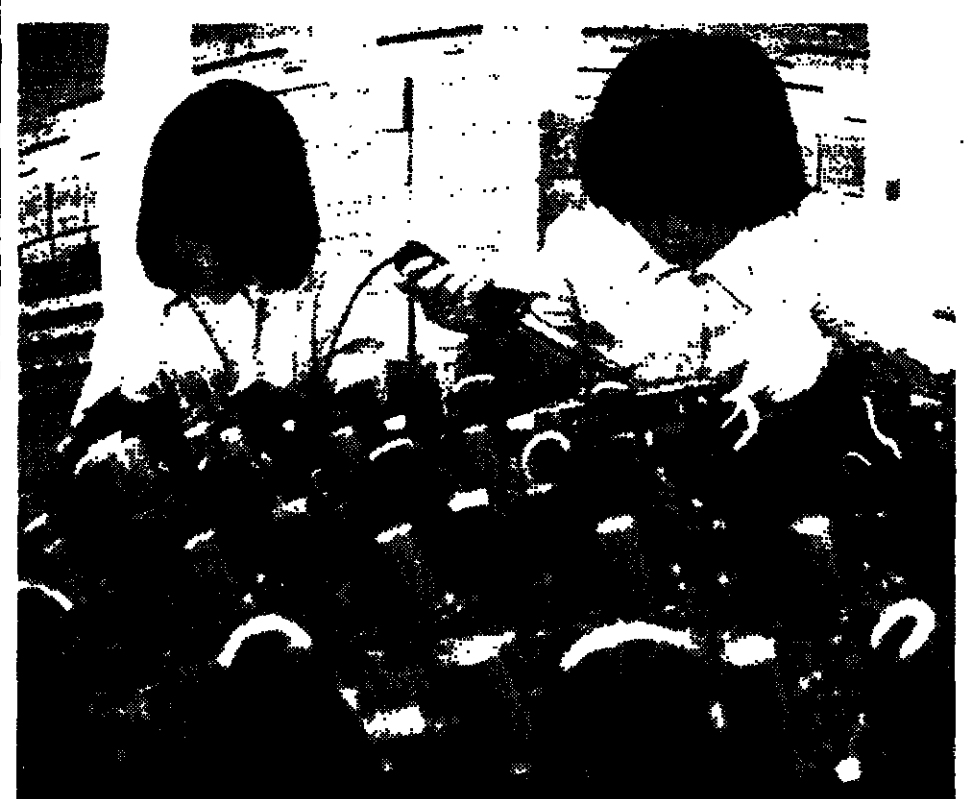
ber 18, and commodity prices are easing back down.

"Professional traders who were aggressively initiating long positions a few weeks ago, have retreated to the bunkers, and will need a new set of circumstances to reactivate," Vickers da Costa said.

Vickers rates the bellwether issue Sime Darby only a "hold," based on the brokerage's forecast full-year pretax earnings will be up only 3 percent, with sales up only 4 percent.

With so many sectors "either in the doldrums or moving in that direction," W.I. Carr says, "Prudence might suggest looking around for recovery stocks, but here the waiting period may prove unattractive."

● SEOUL — Since the Korea Fund was listed on the New York Stock Exchange this September, managers of Asian portfolios have felt obliged to do their homework on Seoul. After the earlier success stories of Tokyo, Hong Kong and Singapore, who can afford to ignore an Asian market where price-earnings ratios are in the four and five's? Look for more money to go here, probably instead of going to Singapore, steadily throughout the quarter. Choosing a portfolio is not even part of the game, though. Unless you live in Korea, you either invest in Korea Fund or you don't.



Workers in a South Korean textile factory.

Tokyo Deregulation Draws Some Bank Criticism

(Continued From Previous Page)

estimated to have jumped from 1 trillion yen, compared with about 700 billion yen in the previous six months.

Both the number of borrowers and the size of individual loans have expanded. Over the summer, the market has swallowed three record-breaking loans. New Zealand and Australia borrowed 100 billion yen each. Canada followed with a 120 billion-yen credit. Borrowers range from power companies and road building authorities in southern Europe to a somewhat controversial loan of 20 billion yen to Comcon, the Moscow-based International Development Bank.

The yen-loan's market role in the international debt crisis is also coming to the forefront. Japanese banks and Mexico's Finance Ministry will get down to brass tacks with Japanese banks in October on redenominating yen up to half of the \$7.4 billion it owes. Japanese banks, as agreed to in a worldwide rescheduling project, Japan has a 17.7-percent share of Mexico's total debt, spread among 28 banks. Some 40 percent is likely to be converted over the next three-and-a-half years.

While Mexico is not yet convinced that the yen is a good bet, Japanese banks can produce charts showing Mexico would be better off borrowing cheaper yen, with a minimum exchange risk. Mexico has been obliged to take about 80 percent of the new loans it has from Japan this year (17.7 percent of \$3.8 billion) in yen, at 0.925 percent over the long-term prime rate for a floating portion and 1.125 percent over the fixed portion.

That is good for Mexico, Japanese banks argue, because of cheaper yen loan rates (7.9 percent plus, against 12 percent plus for dollars) could save about \$370 million in interest payments each year, cutting Mexico's need for new money.

Yen loans, in turn, ease demand for dollars and, hence, pressure on Eurodollar interest rates. That should be good for Western banks, too.

The biggest problem facing Japanese banks, however, has been attracting trouble-free borrowers. Competition among the so-called city banks (the largest commercial banks), long-term credit banks, trust banks and life-insurance companies to carry favor with top-rated borrowers has led to a great deal of behind-the-scenes front-end commission rate cutting.

Indeed, the authorities finally abandoned their attempt to hold together a "consensus" on management commissions (previously a 0.5-percent margin) among banks. Prime borrowers can now expect to win terms as low as the long-term prime rate itself.

Examples of fierce competition are abundant. Nippon Credit Bank, the smallest of the three long-term credit banks, stunned the market in July by winning the mandate for the 100-billion-yen Australian loan by accepting easier terms on the commitment fee. A lively "soft-loan" market has also developed with big life-insurance companies grabbing yen-loan mandates by arranging to absorb dollar private placements at "sweetheart" rates.

Actually, Japan's 13 city banks as a group have fared the worst in winning new business. (This, of course, ignores the role of foreign banks, which through more active in syndications than before, are still minor players.) The city banks' share of the yen-loan market has slipped to less than a quarter of the total from about one-third over the last year.

This is mainly because city banks, which are barred from raising funds longer than three years, must offer loans on the basis of a partly floating rate above the long-term prime, normally reviewed every six months.

Long-term credit banks, trust banks and life insurance companies offer fixed-rate loans, which seem to be more attractive to the types of borrowers tapping the market. To the city banks' chagrin, their competitors of late have even begun offering floating-rate terms to borrowers.

To stem the tide, the top six city banks quietly banded together earlier this year to lobby the Ministry of Finance into allowing a new loan plan, which for the first time (officially) would break through the long-term prime rate floor. The plan has been dubbed the "external base rate," and would be the closest thing to a floating rate so far seen in the market.

The EBR idea is to quote terms based on the 90-day negotiable yen-denominated certificate of deposit (Euroyen CDs) will be allowed next year. The rate to the borrower would actually be a margin above the CD rate after certain costs have been added. Even so, banks believe they could offer interest rates of about half a percentage point lower than the long-term prime rate. (The CD rate has been used before in Yen loans, but only in deals where the long-term prime has been the floor.)

What the city banks want is to put the plan into effect before the authorities feel compelled to open the door to Euroyen lending. They have tried to line up the World Bank as a first candidate, and may consider offering the plan to a top-ranked foreign corporation in order to break the ice.

The EBR has merit, although critics say that Japan does not need what is essentially an artificially floating rate. Even when Euroyen lending starts up, Japanese bankers reckon the thinness of Euroyen funds will still draw the biggest borrowers to Tokyo, and presumably to either fixed-rate or EBR deals.



Japanese workers outside a Honda plant.

Donor Nations' 'Aid Fatigue' Pushes Development Banks to New Sources

(Continued From Previous Page)

that developing countries mobilize their own resources and use them more efficiently.

Mr. Tsusaka's department began its work in equity investment in 1983 under his predecessor, Robert Bakley, after five years of discussion inside the ADB. A major concern was the exposure of the ADB to the risks of the equity investment itself. As Mr. Bakley explained, if the bank is an equity investor rather than just a lender, it "lives or dies" with the project. But, he added in an interview last spring, "The bank is not poor; profits last year were \$179 million. We can afford some risk."

Under Mr. Bakley, the ADB launched its first two equity investments last year: a \$960,000 investment in the share capital of the Korea Development Investment Corp. and a \$2-million stake in a Pakistani development finance institution, Bankers Equity Ltd. Ten months into 1984, they have not announced a single new equity investment, but Mr. Tsusaka says that two more are scheduled for

early 1985: a \$300,000 investment in a Pakistani leasing company, the National Development Corp., and a \$1-million holding in Indonesia's only governmental development institution, Bapindo.

He also listed new possible projects in shipyard operations, galvanized steel and chemicals. Most controversial, he feels, is the question of the ADB involving itself in the development of local stock markets, or other security activities like brokerage houses and bond issues.

"Equity investment in capital markets of our borrowers presupposes expanded private sector activities, and the liberalization of interest rates and market forces," Mr. Tsusaka said.

He could well have been describing the direction of the South Korean economy, the largest Asian commercial borrower on the commercial market, with total debt officially put at \$42 billion, placing it fourth in the world.

The Korean government's current program for financial liberalization includes the raising of inter-

est rates, increase in domestic savings and expansion of the stock market. "The South Korean government discussed the introduction of the Korea Fund on the New York Stock Exchange with us," Mr. Tsusaka said. "Our coming report on domestic resource mobilization in six developing countries discusses the merits and demerits of the idea. Theoretically, such an idea could be copied by a country like Thailand."

A second recourse to commercial funding undertaken by both the World Bank and the ADB is the encouragement of cofinancing of projects with the participation of commercial banks.

Cofinancing is at least 10 years old at the World Bank, and over the decade about half of the \$37 billion in World Bank projects involved cofinanciers. Nearly 30 percent of these were Japanese commercial banks, compared with 24 percent for U.S. banks. However, the bank introduced a new cofinancing program last year in an attempt to get private banks even more involved than before. So far, they have had a

very slow start, with only one such loan to an Asian country, Thailand, in the 13 months of the program.

Critics of the new program say that World Bank staff has been reluctant to take the increased risk involved and to make the necessary policy changes.

In brief, the new cofinanced loans, called "B" loans, provide for 15 to 20 percent direct participation by the World Bank in a commercial loan, instead of the traditional "parallel" financing where World Bank and commercial lending in a project remained distinctly separate.

Some World Bank officials fear that the bank's increased exposure to risk through a commercial loan will affect its high creditworthiness in international markets. But the World Bank's vice president for cofinancing, Teruyuki Onuchi, said in June in an interview with AsiaBanking: "The future direction is that cofinancing will continue to increase. It's just one way to build up a closer cooperative relationship between aid agencies, private banks, bilateral organizations and

export credit agencies. The private banks are pulling out. They need some umbrella or scheme to continue this in a more orderly manner."

The ADB, too, has explored new types of financing to stretch their aid dollars further. An average of only four projects were cofinanced until 1977, with the average amount less than \$100 million. The figure shot up to \$430 million the following year, largely because of the injection of oil money from institutions like the Islamic Development Bank, the International Fund for Agricultural Development and the Organization of Petroleum Exporting Countries.

However, the petrodollar liquidity has dried up with the drop in oil prices, turning the ADB's attention to private banks. From 1970 to 1983, a total of nine projects had been cofinanced with export-credit institutions for \$183 million, and 22 projects with commercial banks, involving \$566 million of commercial loans. These were mainly for projects in middle-income developing member countries such as Indonesia, Korea, Malaysia, the Philippines and Thailand, and more than half of this cofinancing has been in the energy sector.

According to a senior cofinancing officer at the ADB, Randolph Earman, projects involving energy, infrastructural changes or manufacturing (for example, cement production) are steered toward commercial-bank cofinancing because their success or failure is easily quantifiable.

Nevertheless, according to the manager of the ADB's cofinancing unit, Eiichi Watanabe, the number of ADB cofinanced projects have dropped in 1983 to 18 from the previous year's total of 25, with the corresponding amount down from \$937.8 million in 1982 to only \$793.1 million last year.

"If we attribute the cause of the drop to demand and supply, I would have to say that it is more due to reduced demand from developing countries, many of whom have severely cut back their borrowing budgets due to economic difficulties," Mr. Watanabe said.

The most popular form of cofinancing is parallel financing, similar to the World Bank's "because creditworthy borrowers want to keep direct contact with the commercial banks," Mr. Watanabe said.

Complementary financing is another means of cofinancing, and provides better security for the lender. The ADB acts as the lender of record and administers the loan itself, while accepting no risk exposure.

"If the borrower defaults, nobody gets paid, but as far as the borrower is concerned, the lender on record is the ADB, not the private bank, and in case of rescheduling, the debt is classified as multilateral rather than commercial, and the private lender is exempted from any rescheduling."

For two countries who received loans through complementary cofinancing last December, Nepal and Pakistan, it was the first opportunity to borrow on the interna-

tional capital market, and a good introduction to new commercial banks. "They're getting loans they would not get otherwise," Mr. Earman said.

Both Mr. Watanabe and Mr. Earman concur that the abatement of the international recession, combined with Asia's good record for loan management and economic growth signal the possible end of the slump in borrowing.

Mr. Earman gives a rough projection of loans cofinanced with export credits and commercial banks (as opposed to official sources) for 1984 of \$494 million, compared to 1983's total of \$180.4 million.

Mr. Earman said that although they are watching the progress of the "B" loan program at the World Bank closely, he feels there is already enough flexibility in the

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A SPECIAL REPORT ON ASIA

Japanese Bankers Moving Rapidly In International Syndicated Loans

Special to the IHT

LONDON — Japanese banks in Europe have two types of operation — branch networks, which concentrate on commercial banking, and subsidiaries (sometimes joint ventures with foreign partners), which by and large concentrate on merchant banking and securities business.

By far, the largest branch network is maintained by the Bank of Tokyo, which in its most recent annual report listed some 250 offices worldwide, including 36 agencies and branches and stakes in 25 subsidiaries and affiliates. Even the largest Japanese city banks (commercial banks) are a long way behind, but are growing rapidly. The biggest — and the world's biggest by assets — Dai-ichi Kangyo Bank (DKB), had at last count 45 overseas offices.

Through their branches the Japanese banks participate in Eurodollar syndicated lending — the first area they tackled overseas and one in which they still maintain an impressive presence.

In the first eight months of this year, there were 12 Japanese banks in the top 40 lead managers of international syndicated loans, headed by the Industrial Bank of Japan (in seventh place) and the Bank of Tokyo (11th).

For Japanese banks in Europe, syndicated lending is still an integral part of their activities, and the top Japanese banks can compete with anyone. In mid-September, for example, Bank of Tokyo was one of three banks to share the most sought after mandate of the year — a \$1.5-billion seven-year credit for New Zealand.

Problems with defaulting debtors, and intense competition between banks to get mandates from the more popular borrowers, which has eaten into profitability, have caused Japanese banks to look elsewhere for growth and profits.

For the banks, the most exciting prospects are in merchant banking, through their subsidiaries in London, Switzerland, West Germany and the Netherlands.

The area most Japanese banks

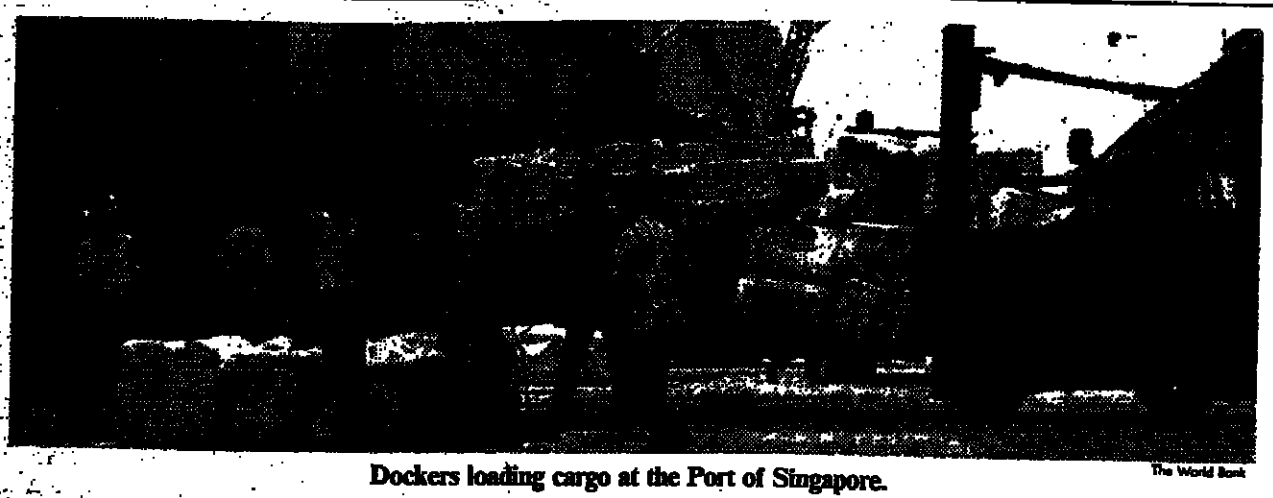
would like to tackle is the lead management and underwriting of new Eurobond issues. It is an attractive market for several reasons. Returns are good — the fees on a typical bond issue are over 2 percent. There are good trading opportunities from bond dealing. Big institutions — and the Japanese city banks are large by any standards — enjoy a comparative advantage in underwriting large issues. And for strategic reasons banks would like to manage overseas bond issues in order to strengthen their case for more securities business at home, where they are severely constrained by Article 65 of the Securities Exchange Law (Japan's equivalent of the United States' Glass-Steagall Act, which separates banking and the securities business).

"In Japan, because of our version of Glass-Steagall, we are limited in our activities. It is only in the Eurobond market that we can get lead management," said Junichi Nishiwaki, managing director and chief executive of Mitsubishi Finance International in London. "We should like to be one of the top Eurobond issuing houses."

So far, however, the banks have done very badly in the European bonds markets, and have obtained only a very small proportion of business. In early October, Mitsubishi Finance International got what it claimed was the first sole lead-manager mandate from a non-Japanese borrower, the Mortgage Bank of Denmark — a coup that the bank attributed to its decision to have an internationalized staff able to compete in the open market for non-Japanese mandates.

"We could have run the books on anything from day one," Mr. Nishiwaki said, "but we thought we would establish our credibility first" — a policy that meant that the bank took a very large number of subsidiary positions in the new issues but only nine co-lead managements.

It may be that Mitsubishi Finance's path-breaking success heralds a new wave of aggressive competition in the bond markets from Japanese banks in Europe, but any



Dockers loading cargo at the Port of Singapore.

decisive grab of market share is unlikely for some time yet. So far, they have made very little impression on the market, with the most active Japanese banks — IBI, Bank of Tokyo and Sumitomo Bank — a long way behind the market leaders. In the first eight months of 1984, even IBI ranked no better than 25th in lead management of Eurobonds.

Exactly why the Japanese banks have failed to get very far in the Eurobond market is not at all clear. As relative newcomers, they can hardly expect to match overnight the expertise of Credit Suisse First Boston, Deutsche Bank or the big American houses like Morgan Guaranty, Merrill Lynch, Morgan Stanley and Salomon Brothers. Even so, they have not been able to make the sort of showing that might be expected from banks of their size. One of their handicaps is the absence of a steady flow of issues from Japanese issuers. The Japanese banks lack a natural clientele, since the most popular form of overseas borrowing by Japanese firms is through low-interest debt in Switzerland — business that goes to Swiss banks.

That is why they are eagerly waiting for new developments in the Eurobond market. As a result of deregulation, the Eurobond market is now, in theory, open to a wide variety of the better Japanese corporations and to overseas borrowers. Because they have close links with the borrowers, and much greater flexibility in providing yen funds, Japanese banks hope to monopolize the business, especially when they are given the right to compete with Japanese securities houses for the lead management role (what Japanese bankers call the "top left" role, from the lead manager's position on the top left of the tombstone advertisement for an issue).

So far, however, Euroyen bond issuance has been minimal — only four issues all year, with a total value of some \$260 million, because would-be borrowers from Japan face a tax penalty on their issues. Although bankers are confident that in the longer run the new market will give them profitable opportunities, for the time being they have turned to other lines of merchant banking and securities business.

One area that has worked out well is swaps — deals where one type of debt is swapped between two borrowers (interest-rate swap) through a banking intermediary, or where debts denominated in different currencies are swapped (currency swap).

"We want to expand our swap business, and foreign exchange swaps in particular," said Kazuo Fujii, director and general manager of Bank of Tokyo International in London, BOT's merchant banking unit.

"Our specialty is yen/dollar swaps, but we want to do more against sterling, against ECUs and against other currencies."

Other bankers agreed. "As Japan's biggest bank, we are naturally well placed to do yen/dollar swaps," said Taji Yamada, managing director of Dai-ichi International in London, "but we are also keen to be active in interest-rate swaps and other types."

Japanese city banks stand to do well in the swaps market for two reasons. One is that the market depends on matching two counterparties, and the city banks have an

unrivaled knowledge of Japanese corporations' financing needs. The second is that Japan's Ministry of Finance liberalized access to swaps in late 1983, given rise to a flood of new business as Japanese firms used swaps to create cheaper funds than they could obtain in Tokyo.

Another important area for Japanese banks is fund management. Japan has for a long time been one of the most glamorous and profitable areas to invest in. Japanese banks, however, see little or none of the business. A U.K. investor, for example, is likely to go for a unit trust (mutual fund) specializing in Japanese equities and run by a U.K. institution — a specialist fund-management company, an insurance company, a stockbroker or a merchant bank.

The only benefit to Japanese financial institutions is the brokerage commission payable to Japanese securities houses when buying Japanese equities. Foreign firms keep the management fees.

Now, however, Japanese banks are trying to muscle in. At the end of August, for example, Bank of Tokyo set up a joint venture in London with a fund-management company, Touche Renneault Asset Management, intended to marry BOT's extensive network of offices and Touche Renneault's fund-management expertise.

There will undoubtedly be other joint ventures along the same lines. The banks are determined to get into fund management both overseas and in Japan, where they are mired in a struggle to manage corporate pension funds — a sector until now confined to trust banks and life-insurance companies but now eyed by city banks (as well as by Japan's brokers and by foreign banks).

In the longer term, two other areas attract Japanese banks in Europe — retail banking and capital market business in Europe's domestic capital markets.

In the United States, the first big expansion of Japanese banks' activities came through acquisition of American banks, almost entirely in the states of New York and California, giving Japanese banks extensive retail branch networks. In Europe, only Sumitomo Bank, with its purchase this year of 52.67 percent of Switzerland's Gotthard Bank, has made a move. Other purchases will follow — Europe is too big a market for Japanese banks to ignore, and they have the funds to shop around. It is also the part of banking that Japan's city banks know best — DKB alone has some 350 offices in Japan, and collectively the city banks are extremely efficient at retail business. Their biggest obstacle is likely to be European central banks' reluctance to let control of domestic banks pass overseas — an attitude seen, for example, in the United Kingdom when the Hong Kong and Shanghai Banking Corp. was rebuffed in its bid for the Royal Bank of Scotland.

The second area, underwriting activity in Europe's domestic capital markets, has been barred to Japanese banks by European cartels (the Eurobond market, in contrast, is open to anyone). In Switzerland, for example, a cartel agreement limits the number of foreign firms that can participate in a Swiss franc bond issue by a foreign borrower, sets a maximum percentage share for the foreign firms and confines them to subordinate roles in arranging the issue.

Japanese firms have not taken kindly to the restrictions, since Japanese corporations are by far the most frequent foreign borrowers in Switzerland and Japan's banks and brokers feel that they should get a fairer share of the market.

Japan's banks have their eyes on those domestic markets. Whether they get anywhere depends on mutual deregulation of capital mar-

kets in Japan and Europe. Japan's record in deregulating its domestic market for overseas borrowers is good. Considering Japan's reputation for protecting its economy from foreign competition, it is ironic that in two areas — acquisitions and domestic underwriting — Japanese banks can now claim they are being held back by European protectionism.

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A SPECIAL REPORT ON ASIA

Hong Kong and Singapore Await Impact Of Financial Deregulation by Japanese

Special to the IHT

TOKYO — Japan's deregulation of its financial markets is intended mainly to increase the scope for transactions between Japanese and foreign financial markets and institutions.

Two major practical consequences are expected to result from this trend. First, because Japan has a high rate of personal savings, it is likely to become a major exporter of capital both through loans to overseas borrowers and direct or portfolio investment in overseas assets. Secondly, in theory at least, deregulation should mean more opportunities for foreign financial institutions to do business in Tokyo.

Tokyo should, therefore, gradually increase its share of worldwide international financial transactions, which has until now been relatively low. For instance, in the year up to September 1983, just 8.6 percent of world international banking transactions took place in Tokyo, compared with 26.6 percent in London, and 15.4 percent in New York — although Tokyo has the second largest economy in the world, after the United States.

Tokyo has for most of this century housed by far the largest concentration of financial resources in Asia. Its stock market is the world's largest after the New York Stock Exchange. Its Big Four securities houses are the equal of all but the biggest U.S. investment banks. Its commercial banks are among the largest in the world. But the Japanese government has until now re-

sisted internationalization of domestic finance. Through the high-growth 1950s and 1960s, it preferred to channel domestic savings cheaply to help industry reconstruct and grow.

If, in the 1980s, Tokyo is to emerge as a major international financial center, at whose expense will that be? Does Tokyo's deregulation spell problems for Hong Kong and Singapore, which became the international centers of Asia in part because Japan did not compete? Or will Japan's liberalization mean that bigger financial transactions can now be handled within Asia rather than going to New York or London, to the benefit of other Asian financial centers?

Much will depend on how far the liberalizations promised by Japan's Ministry of Finance in theory work out in practice. Some foreign banks, for instance, will be allowed to manage Tokyo corporate pension funds next year — just as, perhaps, foreign automobile makers have long been allowed to sell their cars to Japanese buyers. The Japanese marketplace can be a murkier thing in practice than on paper. Foreign banks have been operating in Tokyo since the 19th century. There are now 75 of them with branch status. But 15 of them lost money last year, while the average return on assets for the group was just 0.06 percent, less than one-tenth of the profitability that would be expected in most other major markets in a reasonable year.

But many foreign institutions

now seem convinced that Japan will be at least the most challenging — and possibly the most rewarding — international market of the coming decade. They are recruiting new staff, and bidding up premium wages for anybody bilingually fluent and with financial experience. One U.S. investment bank increased its staff from 15 in 1983 to 50 now, and expects to triple it again by 1986.

While Tokyo is becoming a more dynamic and forceful international financial center, Hong Kong and Singapore are sagging. Bread-and-butter sovereign lending has been slowing over the last two years, though Asia's borrowers have remained more buoyant than most. In Singapore, domestic economic growth has compensated the financial sector for slower offshore banking business. Hong Kong, though its manufacturing economy has remained strong, has been able to offer little by way of home comfort. After two years of tense negotiations, Britain recently agreed to hand the colony back to China in 1997. China promised to maintain Hong Kong's capitalist way of life for at least another 50 years. But worry about the future has sapped Hong Kong's vitality. It is no longer the unabashedly optimistic place of five years ago. Bankers wonder whether China, which lacks even a convertible currency, can resist a bureaucratic impulse toward restricting and regulating financial markets whose major acknowledged strength has been their freedom from official intervention.

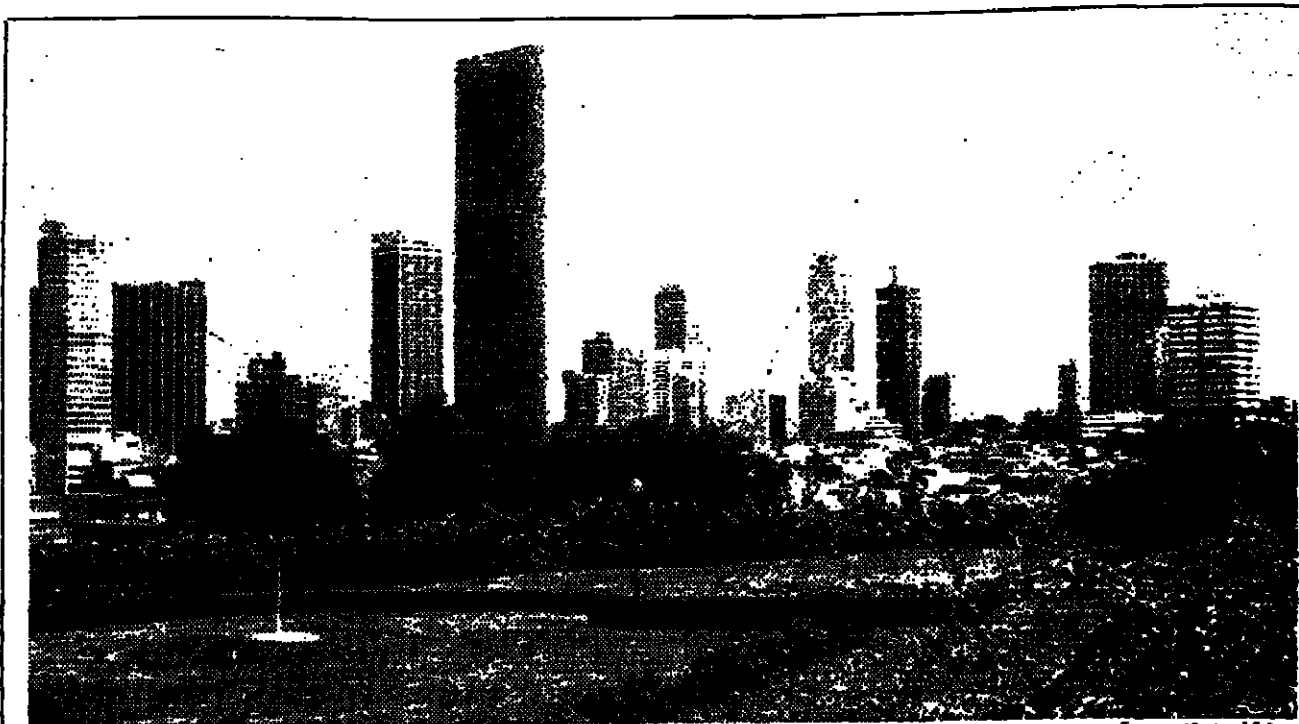
Already Japan's internationalization is attracting some Hong Kong bankers, stockbrokers and fund managers into Tokyo, particularly those who are less optimistic about the colony's prospects under — and during the run-up to — Chinese sovereignty.

If Japan's financial barriers are truly lowered, Tokyo will exert a powerful "pull" on foreign institutions as the natural location for major Far East offices. The major attraction will be the base of potentially strong domestic business on which to build. But the more international banks that come to Tokyo, the more fully international business can be done there. It may be convenient, for instance, to negotiate a U.S.-dollar syndicated loan in Tokyo, even if it is then booked through Hong Kong or Singapore branches.

Financial institutions may also prefer Japan to other Asian financial centers because they want direct access to Tokyo's capital markets as a source of funding for international loans. The syndicated lending boom of the 1960s and 1970s was largely a U.S.-dollar phenomenon. But with many Asian countries enjoying strong economic growth, the proportion of Asian yen credits is increasing.

Bankers and officials in Tokyo are still arguing about a possible further deregulatory step that would have a much more clear-cut impact not just on Hong Kong and Singapore, but also on London and New York — creation of an offshore banking center in Japan.

The pro-offshore banking lobby is led by a blue-chip member of Tokyo's financial establishment, Takashi Hosomi, a former vice president of finance. Mr. Hosomi wants a system modeled on the international banking facilities (IBFs) successfully set up in the United States in 1981, allowing banks to undertake offshore transactions free of withholding tax or reserve requirements.



Singapore's new skyline matches its economic growth in recent years.

U.S. Recovery Fuels Growth in East Asia

(Continued From Page 9)

blunted recent efforts to offset this with increased commercial-crop production.

"The Indonesians are now braced for the worst," Mr. Sharpe said. "The worst being another downward break in the oil price." Indonesian production has been exceeding its OPEC quota of 1.3 million barrels per day by 10 to 15 percent.

The Philippines has been hit hardest of all. Both sugar and copper — two of its major exports — are now trading at prices below the minimum required for profitable production. As a result, two mining companies have already closed — cutting copper output by 20 percent. Because of the poor long-term outlook for sugar, President Ferdinand Marcos has announced plans to reduce the sugar crop next year by the same percentage.

These difficulties have been partly offset by a healthy rise in the price of coconut oil, of which the Philippines is the leading producer.

Nonetheless, while commodity prices are not the core of Manila's problems, they will contribute to what is expected to be a negative growth rate this year. Estimates of the contraction currently range from minus 1.6 percent to minus 6 percent.

The problems of Asia's primary producers are in stark contrast to those of industrial exporters — the four NICs and Japan. These nations have experienced unexpectedly strong demand from the United States this year. As a consequence, most have outperformed their own economic growth forecasts; all of them are raising exports far faster than this year's 6 percent increase in world trade — particularly in such industries as electronics and textiles.

On balance, these nations have thus benefited from the strength of the dollar — despite inflationary pressures evident in both South Korea and Taiwan and an increased capital outflow in Japan. But there is widespread concern

that the growth momentum achieved this year will evaporate quickly once the U.S. economy slows down.

Capital investment and consumer spending have generally been weak, in part reflecting uncertainty about future export prospects. In addition, most governments have continued to limit public spending. These factors have kept the strength of the export sector from carrying through to domestic economies.

"In an environment of high interest rates, you don't get much private investment," says Eric Nickerson, the senior economist at Bank of America's Asia division in Tokyo. "And with respective fiscal policies, there won't be much staying power."

Spreading trade barriers have only heightened concern over export dependence. The United States has already established another record trade deficit this year — it reached \$83.68 billion at the end of August, compared with

\$68.39 billion for the whole of 1983. Asian industrial exporters have been major contributors to this.

Some U.S. officials now predict that Japan's trade surplus will reach \$36 billion next year, up from an expected \$30.9 billion this year. Taiwan is expected to record a \$10-billion surplus in two-way trade this year, an increase of 50 percent from 1983.

The result has been predictable. Both Taiwan and Korea are now facing increased pressure on exports and demands to open up their domestic markets. Recent U.S. actions against textile producers are likely to affect almost every country in the region, including China.

Officials in most East Asian capitals are now scrambling to placate Washington and avoid damaging confrontations over trade. Mr. Reagan's recent decision to limit steel imports, for instance, has been welcomed in Japan and Korea because restraints are nominally voluntary.

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Singapore's Merc Link: 24-Hour Trading Pays Off

By Joyce Quek

SINGAPORE — Nothing in recent years has excited Singapore's central bank, the Monetary Authority of Singapore (MAS), more than the link-up of the Singapore Monetary Exchange (SIMEX) with the Chicago Mercantile Exchange.

The all-important element of timing was more than fortuitous for the Singapore exchange. The link-up brought not only the prestige of being the first non-American exchange to link up trading overnight with Chicago's Merc, but also the fruits of getting established first.

It became privy to the Merc's well-tested controls and clearing systems by the tie-up. Even before approval from the U.S. regulatory body, the Commodities Futures Trading Commission (CFTC), was given for the link-up, Chicago had already sent its experts and trainers to Singapore.

And more importantly, SIMEX gained access to the immense liquidity of the Merc to fuel its growth to a target of 3,000 to 5,000 contracts daily on a sustained basis.

For a country that is, by geography and inheritance, given to trade, Singapore's trader mentality will be honed to an even finer point. The link-up is another way of injecting entrepreneurial flair in trading volume for margin. SIMEX flamboyantly describes the typical local, the

individual nonclearing member, as a man who is able to take risks, a man who wants to become a millionaire.

Moreover, the link-up is also a gateway to achieve the 24-hour trading, envisaged in the government's plans. Already, exploratory talks are being held with the London International Financial Futures Exchange (LIFFE) for a link-up. And, plans are being made for SIMEX to trade in a Japanese stock index and crude-oil figures.

SIMEX rose from the ashes of the Gold Exchange in Singapore, which, two years ago, had been operating under very unhealthy business practices. The public lost money on the Gold Exchange through a combination of factors — fraud, its own bad market judgment and its gullibility. Registered complaints caused the government to investigate 24 of the more than 70 firms then operating.

A total of 21 firms on the Gold Exchange were ordered to be shut down for giving unlawful loans, trading with suspended Hong Kong firms or dealing in practices prejudicial to the public interest. The number of remaining firms decreased as some ceased operations.

Weekly gold trading volume fell drastically between January and April 1984. The government was thus faced with a dilemma that it had to resolve in a hurry. It had to create an unsavory aftereffect of the Gold Exchange shenanigans, which had tarnished Singapore's business confidence and set back its plans to be an international financial super-market.

The government's aim was "to make Singapore the premier market maker in Asia for gold, foreign exchange and U.S. dollar interest rates," said Ng Kok Song, the manager of the international department of MAS, who is the prime mover of SIMEX as its chairman.

"It takes a lot to build a new market," Mr. Ng said. "The political and business climate has to inspire confidence, the new market has to prove credibility and integrity in terms of liquidity, sound business practices and reliable systems for clearing and market surveillance."

It was no mean task to build up confidence — in the shortest period of time — in the newly created SIMEX. The government had been working on the concept of a financial futures market since 1982.

In light of the Gold Exchange's problems, SIMEX would have to be carried out as a respectable business with proper business practices. It was as novel in this area as it was daring — to provide an organized exchange for gold and financial futures, which would be linked up with other international financial centers on a mutual offset system, on a round-the-clock trading basis.

The planners asked themselves whether they could achieve a link-up in the world's largest capital market, the United States, with an exchange that would have the expertise and technology in developing a trading and clearing system. "SIMEX is our vehicle for establishing Singapore as the center in Asia for trading gold and futures contracts," Mr. Ng said. "We are already an important center for

trading physical gold exchange and international money instruments."

To him, the emergence of the United States as a significant force in the financial market suggested the potential for similar markets in Singapore's time zone. "Not only do market participants in Asia desire a market in their own time zone, but in this age when financial markets do not sleep, U.S. and European operators can also be attracted to deal in our futures market here, as they currently do in foreign exchange and gold," he said.

The Chicago Merc, an innovative newcomer that has become the fastest growing and most successful exchange in the world, is credited with developing the futures and options markets and is threatening to steal much of the thunder not only from the New York Stock Exchange but also the New York Commodity Exchange (COMEX) as well.

As one of the two largest commodity exchanges in the world, the Merc has much to offer. The timing for SIMEX's approach to the Merc coincided with the various American exchanges' realizing that fighting over the same market would only divide the spoils.

The Americans saw that helping overseas markets, such as SIMEX, would encourage trading in different time zones and could boost overall transaction volumes. The reasoning was that, being the leaders in expertise, volume and market liquidity, they would get the lion's share of the business.

A mutual offset system links the computer of SIMEX and the Merc's clearing systems. It thus removes overnight risks as a position taken on one exchange can be liquidated hours later on the other by bridging the 13-hour time difference between Singapore and Chicago.

The system also cuts transaction costs since a deal made on one exchange and offset on the other is treated as one transaction, not two.

A Singapore trader opens contract in one exchange, executing a buy or sell order from Merc members. He closes it off in the other exchange by sending it back to the Merc's Chicago clearing house, which processes the executed order and collects the margin and settlement fees from the Merc member.

The SIMEX-Merc link-up allowed longer trading hours, which in turn allows traders to respond more quickly to market-moving news, for example, money-supply figures that would affect interest rates and the U.S. dollar's movements, after the U.S. futures trading closes.

They can trade on SIMEX, which would reopen 13 hours before the U.S. market or eight hours before the London market starts, and adjust their positions accordingly.

The trading hours on SIMEX have been extended for Deutsche Bank and Eurodollar contracts to capture the trading interest arising from the opening of the financial markets in Tokyo and London. SIMEX starts trading with Sydney, Tokyo and Hong Kong and continues through the day with London and Zurich.

The mutual offset arrangement should lead to greater liquidity for the Singapore market; one of the most important factors determining the success or failure of a futures market is its ability to insure that the exchange has sufficient liquidity. A liquid market is one that enables traders, both big and small, to transact without significantly affecting the price of a contract.

"The most important thing is liquidity of the members," Mr. Ng said. "If you study the developments in LIFFE, the initial period's volume was perceived to be low, but if you talk to members, they are satisfied. Volume has climbed;

6,000 contracts is expected to be good. We are trying to judge volume of activity, whether the volume was sufficient to cover expenses."

Singapore alone cannot generate a sufficiently large number of transactions to provide that level of liquidity in the short term. From LIFFE's experience, when it began trading in September 1982, it is not an easy task. No amount of support from the many institutional players was able to generate a liquidity. Singapore's aim is that a newly developed SIMEX gold contract "should one day dominate gold trading in Asia just as the New York Commodity Exchange now rules the gold market in the Western hemisphere."

It was not just the prestige of being the first company outside the United States to have a link on trading overnight through an American exchange. There are advantages to being the first. "It's widely believed that being first has been important in the history of futures contracts," a SIMEX official said.

The laggard runs the risk of losing the highly liquid clearers and market makers to the front-runner. Asia-Pacific rival exchanges in Hong Kong and Sydney were racing to achieve their linkups with COMEX and LIFFE.

One of these reportedly urged the authorities not to grant approval until the SIMEX-Merc's contracts were published. In the end, SIMEX started trading on its own in gold futures even before receiving the CFTC's approval for the link-up. On its second day of trading, it broke the Gold Exchange's trading record.

With the link-up approved and in place, volume rose to almost 3,000 contracts a day. The exchange's fortunes have risen and fallen since, but it has succeeded in establishing itself as the first in the Asia-Pacific region for financial futures.

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HIGHLIGHTS — 1983

Capital & Reserves	US \$ 71,185,000
Deposits	3,074,325,000
Advances & Investments	2,374,401,371
Total Assets	4,163,347,885

By the Grace of Allah UBL has achieved the highest growth rates during 1983, as shown below:

Deposits	53%
Advances	35%
Foreign Trade	101%
Profit	31%
Assets	45%

UBL also declared highest rates of profit on Profit/Loss Sharing Deposits for the year 1983.

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Automation Is Lagging in Singapore

Special to the IHT

SINGAPORE — Some time later this year, Singapore will acquire another symbol for status-conscious executives to sport on their hips. Riding alongside their designer label and telephone pager will be an alpha numeric pager, a useful tool for traders and dealers monitoring price movements in a variety of financial markets. The pager, essentially working along the same lines as a telephone pager, can monitor price developments in 10 different items, including shares, market indexes or currency and commodity movements.

The device is seen as a natural tool for dealers in Singapore's growing foreign-exchange and financial futures markets. It also fits in well with the island's ambitious plans to computerize and automate as many functions as possible.

But despite these visible symbols of technology advances, automation has yet to gain wholesale acceptance in Singapore. In banking, despite nearly a decade of creeping computerization — in over-the-counter services as well as in the backroom — customers are still un-

willing to forgo human contact when they come to the bank.

Despite the large amounts spent on automated teller machines (ATMs), senior bankers are still worried about the long queues that still crowd their banking counters, slowing down transaction volumes.

ATMs, which are capable of providing more than cash-dispensing services around the clock, have been installed and operational for more than six years. More than 400 machines now dot the island, located not only within bank interchange stations but at petrol stations as well.

Ten major banking groups operate ATM networks on the island. The Development Bank of Singapore (DBS), the Overseas Chinese Banking Corp. (OCBC), the United Overseas Bank (UOB), the Hongkong and Shanghai Banking Corp., the Chartered Bank, Citibank, Chase Manhattan Bank and the Post Office Savings Bank (POSB) operate independently. A 10th major bank, the Overseas Union Bank (OUB) in combination with four other smaller Singapore banks operate a joint

network through a company called Automated Data Processing.

Because of the multifunctional nature of the ATMs — they accept deposits as well as allow inquiries (all the rudimentary functions of a bank branch), most of the commercial banks have to seek permission from the central bank, the Monetary Authority of Singapore (MAS), before they can install a machine in a new location.

The only exception to the rule has been the POSB, which, as the national savings bank, has the largest number of banking accounts in Singapore — 2.5 million — equivalent to one for every member of the population. POSB's cash-on-line ATM network is the most intensive on the island with more than 190 outlets.

The limited use made of ATMs, though, are severely crippling further plans to automate more banking services. Funds transfer facilities have yet to be fully utilized. The banks have not set up an interbank Giro System to handle bill payments for utilities and other bills. Banks have even toyed with

(Continued on Next Page)

Investor Confidence Is Key to Debt Recovery in Philippines

By Abby Tan

MANILA — As the only Asian country under a debt moratorium, the Philippines will have a continuing shortage of foreign exchange until the end of the decade and commercial borrowings will be hard to come by until — and unless — confidence among local and foreign investors is restored.

Bankers are going to be shy of the Philippines because of all the booming economies of East Asia and the Association of Southeast Asian Nations (ASEAN), the Philippines always gets dishonorable mention with poor credit ratings. The Philippines' image abroad suffers from a crisis of confidence, with a seeming inability to show political will to put things right.

After nine months of negotiations, the Philippines finally submitted a letter of intent to the International Monetary Fund (IMF) for a \$15-million special drawing rights (SDR) standby facility in the third week of September. This is only the first hurdle to a few more months of careful planning and delicate negotiations for the years of austerity that the Philippines must undertake for economic recovery.

Bankers and economists are ready to be optimistic about the Philippines' long-term prospects, given its built-in potentials. As an economist at one of the foreign banks said: "There is no reason why the Philippines should not be the highest performer in ASEAN rather than the lowest as it is now. It has all the inventories of resources. But a lot is going to depend on the country's leaders' motivations. Fundamental changes have got to be made in the way the Philippines is running the economy, a sensitive use of foreign exchange and choosing production types that can be sold abroad. We can't have waste, loss and corruption of the past."

The short-term prospects are gloomier. Bankers are

not talking about syndicated loans beyond the \$1.65 billion new money it hopes to get from its 483 creditor banks in the rescheduling talks, which began on October 1. Before the moratorium of October 1983, the Philippines was already being charged more than 1 percent above the London interbank offered (Libor) for short-term loans and 3/4 percent above Libor for medium-term loans. In comparison, Thailand, Indonesia and South Korea are being charged much lower.

Manufacturers Hanover Trust heads a 12-bank advisory group that together holds 90 percent of the \$10 billion to be rescheduled out of the \$25.6-billion foreign debt. Smaller banks have balked at the prospect of kicking in new money, which would represent 12 percent of each bank's total exposures.

The IMF approval for the credit facility will unlock a three-pronged credit request: rescheduling with commercial banks, including \$6.4 billion in arrears; \$3.3 billion in new funds (\$1.65 billion each from the banks and an equal sum from multilateral agencies such as the World Bank and the Asian Development Bank); and trade credits estimated at more than \$2 billion.

These are the figures the Philippine government hopes to work on. Foreign bankers in Manila say that they are unsure of the exact amounts involved. The Philippines' actual financial needs are being assessed by an economic subcommittee of the advisory group chaired by Morgan Guaranty Trust.

Analysis predicts that the rescheduling will only be completed in early 1985 and that a fourth extension of the 90-day moratorium, which expired on Oct. 14, would be necessary. In the meantime, the Philippines is seeking bridge financing from the United States and Japan and a small amount from South Korea. In the region of \$150 million to \$160 million to cover the first two tranches of the IMF facility, which will be released over 18 months.

Among its important creditors are the U.S. Ex-Im Bank and the Commodity Export Credit Corp., the Japanese Ex-Im Bank and the Overseas Economic Cooperation Fund, Hermes of Germany, Coface of France, the Export Credits Guarantee Department of Britain and the Canada Development Corp.

The Philippines has sought to strengthen its own domestic banking system by encouraging the merger of weaker banks with bigger ones. The governor of the central bank, José Fernandez, explaining the rationale behind this move, said that the Philippines could not hope to get outside financing anymore and must rely on its own domestic resources.

One of the largest banks, the Bank of Philippine Islands, recently bought over Family Trust Bank, and the government-owned Commercial Bank of Manila absorbed Royal Savings Bank, a bankrupt provincial bank.

It was the Philippines' international structural weakness that caused several upheavals on the IMF agreement. Foreign creditors were dismayed over the infamous \$600-million overstatement in the foreign reserves. Then money supply went out of control, topping an unprecedented 38 percent at the end of 1983. Political necessity overrode economic caution when the government borrowed 5 billion pesos (equivalent then to \$357 million) to fund the legislative elections in May. The government poured in billions of pesos more to prevent the collapse of the banking system hit by a widespread bank run in July.

The price the Philippines will have to pay in return for the IMF agreement will be high indeed. The Philippines peso will have to be devalued for the fourth time. The first official slide began in June 1983, when the peso was pegged at 11 to the dollar, then reached 14 in October 1983. Trading last week had the peso going steadily downward, at 18.21.

The country has a four-tier multiple rate — for exports, imports, interest payments and the black-market rate. The four rates are being standardized at a rate bankers predict will be around 31 pesos to the dollar.

The high inflation rate was another major stumbling block to the IMF's approval. The inflation rate in August, on an annualized basis, was 60.35 percent. Economists predict that the entire year's overall rate will settle at 40 percent, still the highest anywhere in Asia.

The central bank has to continue mopping up excess liquidity through the open-market operations, like offering central bank bills at 32 percent interest. This has forced the pesos out of the bank vaults.

The government is committed to reduce its budget deficit for 1985 to 1 percent of gross national product. The deficit of the 13 government corporations, which was even bigger than the national government budget deficit, will have to be drastically slashed to 11 billion pesos in 1985.

The Philippines must also undertake structural reforms as stipulated by the World Bank to start dismantling monopolies of sugar, coconuts and food and instituting a more equitable pricing policy. To begin with, the Ministry of Agriculture has been strengthened as the main planning agency with greater authority. In the process, the National Food Authority, which operated independently before, now has its powers reduced.

Some bankers predict that the economy may be able to turn around much more quickly if the growth rate of its traditional markets — the United States and Japan — is able to reach the target of 4 to 6 percent in 1985, thus making Philippine exports a key factor. Still, it will be the Philippines' internal resilience and its will to make sacrifices that will make the difference in the long run.



The Yue Loong automobile factory in Taipei, Taiwan.

Thailand Retains International Credibility Despite Domestic Banking Problems

By Peter Janssen

BANGKOK — It has been a very full year for Thailand's financial community. The fiscal year 1983-84, which ended on September 30, included the near collapse of almost a dozen finance companies, the takeover of the Asia Trust Bank, the proliferation of unregulated money lenders and the unceremonious dismissal of the governor of the Bank of Thailand, the central bank.

Despite the crises, some of which have yet to be fully defused, Thailand's international credibility has not been seriously blighted, according to bankers in the capital.

"The Thai are naturally cautious people who are cognizant of the pitfalls of overborrowing," said one foreign bank representative officer based in Bangkok. He added that concern over the abrupt dismissal on September 11 of Nukul Prachabumh as governor of the central bank had died down pretty quickly among foreign bankers. Although Mr. Nukul's sacking by the finance minister, Somchai Hoontrakul, was severely criticized and the country's credibility took a temporary setback, most bankers now believe that the central bank's operation and monetary policy has been unaffected by the dismissal.

Bancha Lamsan, the chairman of the Thai Farmers Bank, the country's second largest bank, said: "The Bank of Thailand has two things on its mind — the stability of the baht and the control of inflation. And I think that whoever becomes the governor will stick to these things, whoever he is."

The sacking of Mr. Nukul, however, has left unpleasant feelings at

the central bank. Not only was the timing of the dismissal order atrocious — a few days before the former governor was scheduled to attend the annual meeting of the International Monetary Fund — but it also sparked concern over the institutional independence and integrity of the central bank. Shortly after his dismissal, Mr. Nukul described the finance minister's move as a "regrettable precedent" and predicted that it would reduce the post of central bank governor to a mere official under the thumb of politicians. The bank has traditionally acted as an independent body responsible for the country's monetary policy while the Finance Ministry has handled fiscal policy.

Mr. Somchai's order to remove Mr. Nukul, which was approved by the cabinet, is generally believed to have been motivated more by a personality clash between the two men than a divergence in economic policy. Both the central bank and the Finance Ministry have adopted a common theme of economic austerity in recent years. A bone of contention, however, arose between the heads of the two institutions over the handling of the collapse of several finance firms late last year. The central bank proposed the establishment of a deposit insurance institute to help boost confidence in local financial institutions but Mr. Somchai flatly rejected the suggestion. Relations between the two men were known to deteriorate thereafter.

Mr. Nukul, who was appointed governor of the bank in 1979, had won the admiration of both local and foreign bankers for his toughness and ability to make unpopular

decisions. He is partly credited for leading the central bank toward a monetary policy that has helped to reduce Thailand's inflation from almost 20 percent in 1979 to little more than 2 percent this year. The country has also won an excellent credit-rating during Mr. Nukul's governorship.

Whether his successor, Kamchorn Satrakul, will be able to match Mr. Nukul's performance remains an open question. "I think we will have to give him time to see how he handles the temptation of politicians, or the government, to make a heavy spending," said Bancha Lamsan about Mr. Kamchorn. The 51-year-old civil servant was personally selected by Mr. Somchai for the governor's post. Mr. Kamchorn has worked at the Finance Ministry since 1960 and had held the position of director general of the ministry's fiscal policy office before his new appointment.

Since Mr. Kamchorn assumed the governorship on Sept. 14, much of the anxiety that surrounded Mr. Nukul's dismissal has simmered down. Both Mr. Somchai and Mr. Kamchorn have gone out of their way to dispel fears about diminishing central bank independence, and most bankers appear ready to believe this so long as the rest of the central bank's senior executive team remains intact. The bank's top executives, led by the deputy governor, Chavalit Tanasakul, are well respected for their integrity and competence, and much of the central bank's policy direction is said to be in their hands. With less personal friction between the new governor and the finance minister

expected, there is even the possibility of an improvement in the country's monetary policy implementation. But, as one foreign banker warned, "it will certainly open some eyes" if more central bank staff is dismissed.

Foreign bankers in Thailand have had their eyes opened more than once this year. On August 6, the government announced its takeover of the Asia Trust Bank, which was suffering from mounting liquidity problems, allegedly the result of mismanagement. The ATB has accumulated about \$100 million in foreign debts, which fall due between August and the end of the year and the great bulk of which is owed to American banks — including the Crocker National Bank, Citibank, Manufacturers Hanover Trust and Bankers Trust. Under the takeover plan, the Finance Ministry obtained 75 percent equity of the ATB from its former

shareholders, namely the Tanwanichkul and Vichitrnananda banking clans.

The central bank recently filed criminal charges against the former ATB chairman, Wallob Tanwanichkul, who has been accused of fraud against shareholders, breach of laws governing limited companies and violation of the Commercial Banking Act. Mr. Wallob is said to be in Taiwan, with which Thailand has no extradition treaty. The ATB takeover comes at a watershed period for the Thai banking system. March 8, this year, marked the deadline for commercial banks to meet the central bank's divestiture requirements of diversifying ownership to at least 250 small shareholders, each holding a certain minimum percentage of total equity. ATB was notably among the few Thai banks that failed to meet the requirements. Divestiture, however, is not the issue; it is rather the goal of weaning the Thai bank-

ing system away from the traditional family-run operations.

While some banks, family-run or not, have proved themselves highly professional institutions, others are struggling to keep afloat in a progressively competitive market demanding higher managerial skills. Although confidence in the ATB has been partly restored by the government takeover and the appointment of a competent new management team, foreign bankers are likely to be more discriminating in their future lending activities with Thai banks.

"We will probably be a little more tight on checking the particulars of each bank," said one foreign banker. As a result of the ATB crisis there has also been talk of adding new amendments to Thailand's 1979 Commercial Banking Act to allow the central bank a greater role in preventing mismanagement of public funds and to enforce more stringent public com-

pany reporting and disclosure standards.

Ironically, after Thailand's fiscal authorities struggled all year to preserve confidence in the domestic financial institutions, the money market has been shaken by wholly unregulated money dealings. Known as chit funds but generally believed to be a local version of a pyramid investment plan in which money generated by new deposits is used to pay back old debts, the increasing popularity of these unregulated funds has grown out of all proportion this year. By far the largest of these chit funds is that of Charnoy Thuyaso, better known as Mother Charnoy, whose deposits are estimated at more than 4 billion baht (about \$174 million). Mrs. Charnoy's fund offered as much as 6.5 percent interest per month on one's investment and is known to have attracted as many as 80,000 participants during the five years in which it has been operating.

When other so-called chit funds began operation and evidence poured in that their business was spreading nationwide, the Finance Ministry prepared a special decree banning pyramid dealings, which the cabinet agreed to "in principle" on September 11. The decree has not yet been promulgated.

Mrs. Charnoy, a former clerk at the government-run Petroleum Authority of Thailand, is known to have attracted many of her customers from government offices and the ranks of the armed forces. The sudden collapse of her fund could be disastrous for investors, but it is generally believed that if the decree is not passed soon the pyramid business may increase here and eventually pose a threat to the country's economic and even political stability. "In this case the government cannot come in and bail people out because it is not a legal operation," noted one Thai banker.

Automation Is Lagging in Singapore

(Continued From Previous Page)

the idea of setting up ATMs in manufacturing plants around the island to bring banking services to the workplace but the lack of interest and the unwillingness of the corporate management to share the cost of running the facility retards progress. As a result, the machine itself retains a lot more capacity for programmable functions that is now served up to the banking public.

They have also developed software packages to handle salary credits for payroll for companies. A committee to minimize cash transactions for manpower savings was formed in January this year chaired by the head of the Civil Service. It estimated that seven out of 10 workers are still paid in cash. As much as 2 million manhours are wasted a year because workers have to queue once or twice a month to collect their packet.

The current focus of attention in the retail-banking sphere has now shifted to consumer outlets. Toward the end of 1984, banks hope to provide facilities through their ATMs installed at service stations to allow drivers to transfer payments for gasoline purchases with a plastic card instead of cash.

But the current exercise falls short of allowing for the development of a truly cashless retail operation. The big four local banks — the OCBC, UOB, OUB and DBS Bank — and the POSB are all involved in planning the introduction

of a central payment computer attached by remote terminals to retail outlets. The proposed electronic funds transfer through point of sales system (EFTPOS) is expected to be introduced some time next year.

Given these constraints in the retail side of the banking market, efforts to automate the industry further has increasingly concentrated on the wholesale side of banking, including further linkages on the interbank basis.

The Monetary Authority of Singapore is in the forefront of developing an automated interbank clearing operation called Clearing House Interbank Transfer System (CHITS) compatible with the Clearing House Automated Payments System (CHAPS) of London, the Clearing House Interbank Payments System (CHIPS) in the United States and the Clearing House Automated Transfer System (CHATS) in Hongkong.

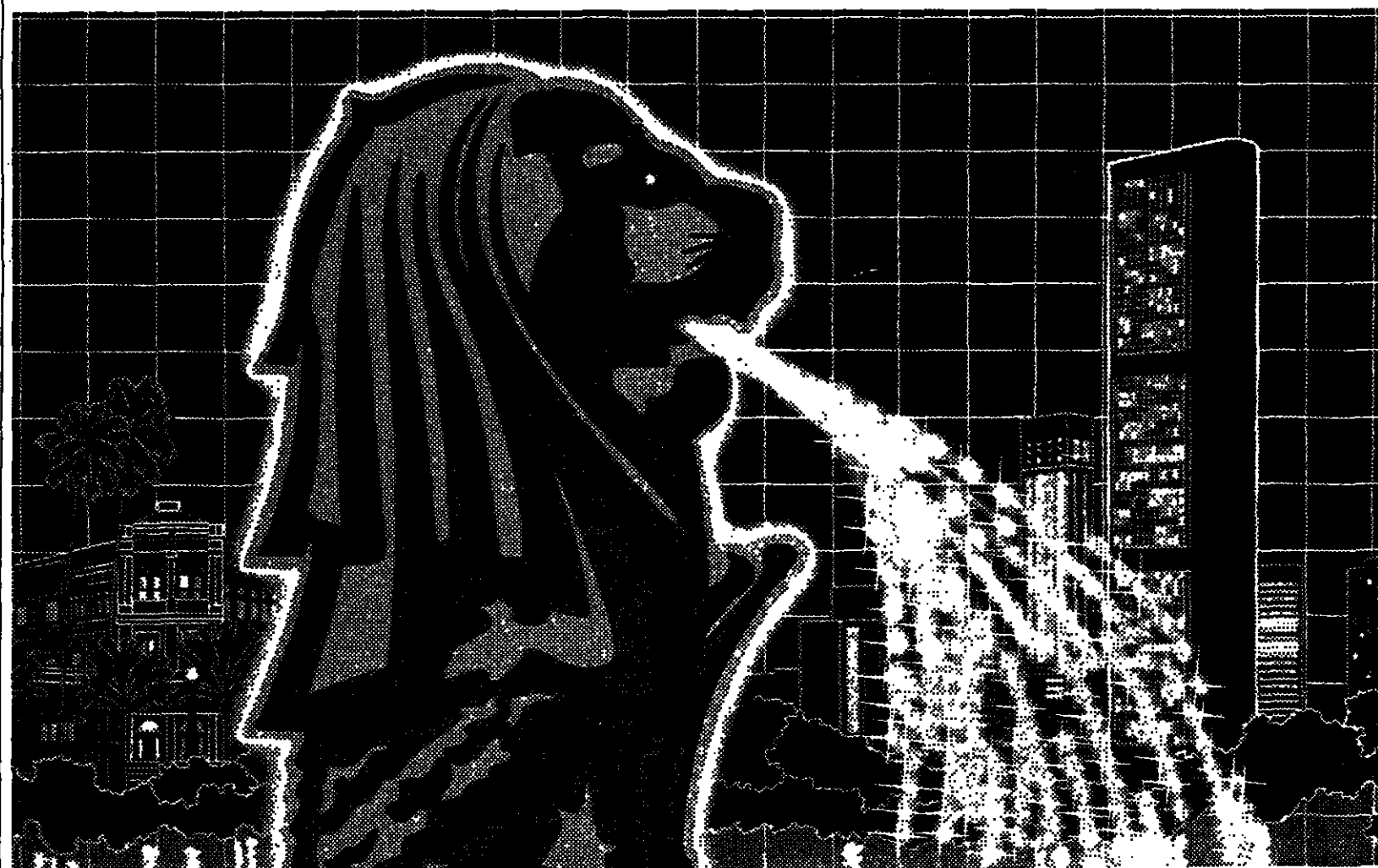
Singapore banks currently operate through Banking Computer Services, Ltd., an automated clearing house set up and operated by the Hong Kong and Shanghai Banking Corp. and the OCBC. The system does not entirely eliminate the need to "walk" checks from bank to bank to clear the interbank load of Singapore dollar payments between banks. Daily average volumes processed by the automated clearing house rose from 100,000 checks in 1982 to 112,000 in 1983. There was unhappiness with

MAS for the peremptory nature of the introduction of CHITS, a system that has been talked about within the banking community for a number of years. There may, however, be more than central bank impatience at the lagging nature of developments. Automating check-clearing in Singapore dollars has become a necessity following the development of equivalent systems in the major banking markets of the world. With package switching facilities available on a worldwide basis, it will not be long before linkages between the various interbank clearing systems are developed. That could open the door to multicurrency and multimarket bank clearing across national borders.

Already in Singapore, another committee is sitting down to study the feasibility of U.S. dollar check-clearing among banks. That could be a major addition to Singapore's development as an international financial center. Outside the United States — and with the exception of informal dollar clearing pools among U.S. banks overseas — there is no formal clearing facility outside New York. A regional dollar check-clearing pool set up in Singapore could speed up liquidity for many corporations in Asia and enhance the island's attempt to attract more corporate treasurers to set up regional treasuries for multinational operations in Asia.

Major foreign banks already offer the latest electronic cash management systems for corporate clients in Singapore. They include the major multinational banks like Citibank, Chase Manhattan Bank, Manufacturers Hanover Trust, Wells Fargo Bank, Chemical Bank and Bank of America. Time-sharing facilities are also provided by such major agencies as General Electric Information Services Co. (GEISCO) and Automated Data Processing among others. Local Singapore banks are also gearing up to meet cash-information reporting for local corporate customers. Interbank check-clearing in Singapore and U.S. dollars will assist them in building up their links with companies.

In fact, corporate information systems have suddenly boomed as a major area on the island.



Singapore sets new horizons for Arab Banking Corporation.

In Singapore, as in other major financial centres around the world, Arab Banking Corporation (ABC) is firmly established and offers a wide range of products and services.

Although we are particularly active in international syndicated loans, corporate finance is part of our business that is steadily increasing in importance. With in-depth knowledge of both Middle Eastern and Asian business operations, ABC is well positioned to support the trade and project related activities of major companies in the area with interests in the Arab world.

Since establishment in Singapore in 1982, we have been continually expanding the scope of our money market operations, strengthening our commitment to the area as an increasingly important financial market.

Our Singapore branch is further supported by ABC's strong capitalisation and by our growing international branch network thereby providing all important links to international business opportunities and access to our ever-widening base of services. To make the most of your resources, call on ABC.

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Arab Banking Corporation: 50 Raffles Place, Hex 14-00 Shell Tower, 0101 Singapore.

Telephone: 224-2977, Telex: RS28989 ABCSNG

Dealing Room Telephone: 224-1811, Direct Dealing Reuters Code: ABCS

Head Office: Bahrain, Branches and subsidiaries: New York, Grand Cayman,

London, Milan, Frankfurt and Monte Carlo.

Representative Offices in Houston, London, Paris and Rome.



CONTRIBUTORS

RICHARD C. HANSON is the publisher and editor of Japan Financial Report, a Tokyo-based economic and financial newsletter.

PETER JANSSEN is a Bangkok-based economist and financial journalist.

DINAH LEE is a Hong Kong-based journalist who contributes regularly to the International Herald Tribune, The Washington Post and The Economist.

JOYCE QUEK is deputy business of the Singapore Monitor.

PATRICK L. SMITH is Asian economics editor of Newsweek International.

ABBY TAN is a Manila-based journalist and frequent contributor to The Washington Post.

NYSE Most Actives

Vol.	High	Low	Last	Chg.
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8

Dow Jones Averages

Index	Open	High	Low	Last	Chg.
Indus	1297.58	1297.58	1297.58	1297.58	+12.34
Transp.	117.72	117.72	117.72	117.72	+0.89
Util	148.70	148.70	148.70	148.70	+0.89
Comp	478.94	478.94	478.94	478.94	+3.79

NYSE Dividends

Advanced	Declined	Unchanged	Total
101	25	49	175
101	25	49	175
101	25	49	175
101	25	49	175
101	25	49	175

NYSE Index

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

Odd-Lot Trading in N.Y.

Oct. 12	Oct. 13	Oct. 14	Oct. 15	Oct. 16
12,000	12,000	12,000	12,000	12,000
12,000	12,000	12,000	12,000	12,000
12,000	12,000	12,000	12,000	12,000
12,000	12,000	12,000	12,000	12,000
12,000	12,000	12,000	12,000	12,000

Monday's NYSE Closing

Vol. of 4 P.M.	Prev. 4 P.M. vol.	Prev. consolidated close
12,000	12,000	12,000
12,000	12,000	12,000
12,000	12,000	12,000
12,000	12,000	12,000
12,000	12,000	12,000

AMEX Dividends

Advanced	Declined	Unchanged	Total
101	25	49	175
101	25	49	175
101	25	49	175
101	25	49	175
101	25	49	175

NASDAQ Index

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

AMEX Most Actives

Vol.	High	Low	Last	Chg.
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8
12887	14 1/2	14 1/8	14 1/2	+ 1/8

AMEX Stock Index

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

NYSE Prices Rise Sharply

NEW YORK — Prices on the New York Stock Exchange were sharply higher at the close Monday in moderate trading.

The Dow Jones industrial average, which rose 7.62 Friday, was ahead 12.26 to 1,202.95 shortly before the close. The Dow gained 8.17 overall last week. Advances led declines by a 10-5 ratio. Volume was about 87.6 shares, compared with 92.2 million traded Friday.

Prices were higher in moderate trading of American Stock Exchange issues.

Bankers Trust encouraged investors when it lowered its prime lending rate to 12 1/4 percent.

While prices in tables on these pages are from the 4 P.M. close in New York, for reasons of time this news account is based on information gathered earlier in the day.

from the prevailing 12 1/4 percent that was adopted about two weeks ago. Experts had predicted a drop in the prime because of lower borrowing costs for banks.

Federal funds rates that banks charge one another for overnight loans, which dropped as low as 9 1/4 percent last week, traded at 10 7/16 percent in the early going.

Some traders still are worried short-term rates will rise as the Treasury is forced to sell \$42 billion worth of bonds and notes in the next four weeks because Congress delayed an increase in the debt ceiling.

Rates have been coming down recently because the Federal Reserve appears to have eased credit due to the slowing economy. Whether the Fed will ease more is subject of a heated debate.

Early in the day, the government reported business inventories rose 0.8 percent in August following a 0.8 percent increase in July. Sales decreased by 0.2 percent compared with a 0.7-percent drop in July.

The government later this week is slated to report on industrial production, capacity utilization, housing starts and the third-quarter gross national product.

The preliminary figures on the third-period GNP showed a 3.6-percent increase, down from the 7.1-percent rise in the second quarter and 10.1 percent in the first.

In early trading, Atlantic Richfield was active. Toledo Edison followed, off 1/4 to 17 1/4.

General Motors was up 1/4 to 78 1/4. UAW members approved a three-year contract with GM. Ford, which reached a tentative agreement with the UAW, was up 1/4 to 47 1/4. Chrysler was ahead 1/4 to 31 1/4. The automakers had strong early October sales.

Hi-Shear Industries (ex-dividend) was ahead 1 to 15 1/4. Raymark was up 1/4 to 15 1/4 and Echlin Inc. was ahead 1/4 to 22 1/4. Hi-Shear said it sold 745,000 Raymark shares to Echlin for \$20 apiece.

G.C. Murphy, which rose 5/4 last week after Irwin Jacobs bought a large stake in the company, was ahead 2 to 41. Mr. Jacobs boosted his stake to 11 percent and might consider taking control of Murphy.

IBM, which rose 1/4 Friday, was ahead 1/4 to 122 1/4. IBM's week reported third-quarter earnings of \$2.60 a share compared with \$2.14 a year ago.

Telephone, which plunged 18 last week, was off 3/4 to 26 1/2.

Standard & Poor's Index

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

Dow Jones Bond Averages

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
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111.30	111.30	111.30	+0.89

12 Month High Low

High	Low	Close	Chg.
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89
111.30	111.30	111.30	+0.89

12 Month High Low

Prime prices in London on these pages are from the 4 P.M. close in New York, for reasons of time this news account is based on information gathered earlier in the day.

from the prevailing 12 1/2 percent that was adopted

Monday's NYSE Closing

Tables include the nationwide prices
up to the closing on Wall Street

12 Month Stock Div. Yld. PE Sh. 100 High Low Close Chg

(Continued from Page 14)

12 Month Stock	Div.	Yld.	PE	Sh.	100 High	Low	Close	Chg
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Floating Rate Notes

Oct. 15

Dollar

Issuer/Rate	Coupon	Rate	Yld.	PE	Sh.	100 High	Low	Close	Chg
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

U.S. Futures

Oct. 15

Season High Low Open High Low Close Chg

WHEAT (CBT)

30% 1000

30% 1000

30% 1000

30% 1000

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12 Month Stock	Div.	Yld.	PE	Sh.	100 High	Low	Close	Chg
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Non Dollar

Season High Low Open High Low Close Chg

WHEAT (CBT)

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

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12 Month Stock	Div.	Yld.	PE	Sh.	100 High	Low	Close	Chg
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
30% 1000	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Stock Indexes

Season High Low Open High Low Close Chg

WHEAT (CBT)

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

30% 1000

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BUSINESS ROUNDUP

Saab Has 35% Rise in Pretax Profit

By Juris Kaza
International Herald Tribune

STOCKHOLM — Saab-Scania AB, the Swedish automotive and aerospace group, reported Monday that pretax profits in the first eight months rose 35 percent, to 1,443 billion kronor (\$164.17 million), from 1,071 billion kronor a year ago. Per-share earnings increased to 30.25 kronor from 22.10 kronor a year earlier.

Sales in the first eight months rose 27 percent, to 16,168 billion kronor. The Saab-Scania group president, Georg Karnaud, forecast sales for all of 1984 would rise 25 percent, to around 26 billion kronor, from 20.7 billion kronor in 1983, while earnings would grow at a faster rate.

In 1983, Saab-Scania had pretax profits of 2,022 billion kronor.

Mr. Karnaud also announced that Saab would invest 360 million kronor by 1988 to boost its production capacity for cars to 150,000 annually, from current levels of 120,000, due to increasing sales in the United States and Canada.

Car division sales rose 26 percent, to 6,134 billion kronor, the interim report said. Sales of Scania trucks also rose 26 percent, to 5,599 billion kronor.

Saab-Scania said it would invest 135 million kronor in a new research and development laboratory in Sodertälje, near Stockholm, to develop new car and truck engines.

Saab-Scania's aircraft division

said sales rose 28 percent, to 1,176 billion kronor, largely due to increasing of ongoing work on the Gripen, a combat plane that is scheduled to go into service in the early 1990s. Earnings of the aircraft division were down, mainly because the company does not book profits on defense work until the projects are completed.

In the civilian aircraft division, Mr. Karnaud said Saab-Scania has reduced 1984 deliveries of its new SF-340 commuter turboprops to 14 or 15, from the 20 aircraft as planned, because certification of the 35-passenger commuter and corporate aircraft was delayed.

The plane is jointly developed with Fairchild Industries of the United States.

Morgan Grenfell To Take Stake in Pember & Boyle

Reston

LONDON — Morgan Grenfell Holdings Ltd., the merchant bank, and Pember & Boyle, a government-bond dealer, have agreed for Morgan to take a 5-percent stake in the bond company, Morgan Grenfell announced Monday.

Financial terms were not disclosed. Morgan intends to acquire full ownership of Pember & Boyle, one of the 10 largest dealers in British government bonds, when the London Stock Exchange relaxes its limits on outside interests in member firms.

Chase Raises Reserves To Cover Loan Losses

United Press International

NEW YORK — Chase Manhattan Corp. said Monday that third-quarter earnings declined 14 percent to \$93 million from \$108 million last year and the 1984 quarter's profits included a sizable recovery of losses it suffered on the collapse of Drysdale Securities Inc.

Chase's principal subsidiary is the third largest U.S. bank.

Chase had a \$49-million pretax extraordinary gain (\$20 million after-tax) that was recovered from Arthur Andersen Inc., accountants for Drysdale Securities Inc. Andersen was among defendants in a suit Chase filed over a loss of more than \$100 million it suffered when Drysdale's government trading subsidiary collapsed in 1982 after it could not meet interest on government securities it had borrowed from major brokers.

Chase put the entire \$49 million into its loan loss reserve, which it increased to \$125 million from \$70 million in the same quarter of 1983 despite a decline in nonaccrual loans and loan charge-offs.

Chase said it elected to increase its provision "in recognition of uncertain conditions in certain developing countries."

Of its total nonaccrual and re-

duced-rate loans of \$2.1 billion at the end of the quarter, about \$370 million was in cross-border loans to Argentine borrowers.

Chase's acquisition of Lincoln First Bank Inc. during the third quarter reduced its per-share earnings to \$1.70 from \$2.76 in the comparable period of 1983.

In the first nine months of 1984, Chase earned \$286 million, down from \$319 million in the same period last year. Per-share earnings slipped to \$6.44, from \$8.81 last year.

First Pennsylvania Has Net

First Pennsylvania Corp. reported third-quarter net income of \$11.6 million, or 29 cents per share, compared with a net loss of \$2 million a year earlier, UPI reported from Philadelphia.

The quarterly earnings included a \$10-million gain from the retirement of publicly held convertible subordinated debentures that were exchanged for convertible debentures with a net loss of \$2 million a year earlier, UPI reported from Philadelphia.

Operating income for the third quarter was \$1.6 million, compared with an operating and net loss of \$2 million during the 1983 period.

Britain Rejects IBM-BT Plan for Data-Networking

Reston

LONDON — The British government has rejected an application by International Business Machines Corp. and British Telecom for a license for a joint venture to provide data-networking managing services, the Trade and Industry Department said Monday.

The department, however, is willing to grant licenses to each of the two companies separately, or to any other company that might want to apply for one. The joint application by IBM and BT was turned down because it was felt it would discourage competition in a newly developing market, the government said.

BT, which is government owned but soon to be denationalized, and IBM announced at the end of July their plan to set up the joint venture.

The service would have provided users with data-networking operations, including management functions, together with special features such as electronic-mailbox and database facilities.

The companies said Monday in a joint statement that they were disappointed that the government opposed the plan.

UAW Members Back GM Pact

The Associated Press

DEARBORN, Michigan — Members of the United Auto Workers ratified a three-year labor contract with General Motors Corp. on Sunday, the union said, ending a tentative accord with the Ford Motor Co.

The vote on the agreement with the No. 1 U.S. automaker was 138,410 in favor to 102,528 against, or 57.4 percent to 42.6 percent.

The totals were compiled from voting conducted over three weeks by 149 bargaining units after the agreement covering 350,000 workers was reached Sept. 21. The contract with GM gives it three years of labor peace and sets up worker aid programs of a size unprecedented in American industry.

Time Posts 52% Rise in Net

Reston

NEW YORK — Time Inc., in reporting that its earnings rose 52 percent in the third quarter, said Monday that it has repurchased 1,628,000 shares of its common stock during the period, bringing total purchases so far this year to 2,280,300 shares.

Time had previously announced its long-term plan to buy back up to 4 million of the 61 million common shares outstanding.

Earlier, the company said its third quarter net income rose to \$46 million, or 72 cents a share, from \$30.3 million, or 47 cents a share a year earlier, in part as the result of advertising generated by the Los Angeles Olympic Games.

Time said its strong earnings performance "is attributable to the continued record-breaking pace of the magazine group and a solid profit improvement by our book publishing operations."

Time said pretax profit from its

magazine group totaled \$29.4 million, after a \$8.7-million loss a year earlier. Magazine earnings "were bolstered by Olympics-related advertising," with the special Summer Olympics issue by its Sports Illustrated magazine contributing to a 35-percent gain in third-quarter ad revenues over the level of a year earlier.

The company said its book group's pretax profits increased to \$10.4 million in the third quarter from \$5.6 million, the result primarily of what it called the "strengthening turnaround" at Time-Life Books.

Time said its video group's pretax profit slipped to \$56 million, from \$57.6 million a year earlier.

The company said its American Television & Communications Corp. subsidiary had higher profits, while Hearst Book Office Inc. continued to experience slower subscriber growth and higher programming costs.

Oil-Price Cuts May Be Near

United Press International

LONDON — World oil prices showed signs of cracking Monday as the United Arab Emirates' oil minister called for a 40-cent-a-barrel cut in his country's official crude-oil prices and Norway offered discounts of \$1 to \$2 a barrel on its North Sea crude.

The UAE, which is a member of the Organization of Petroleum Exporting Countries, and Norway, which does not belong to OPEC, have had trouble selling their light crude at official government prices in recent months because of rising demand for heavier, cheaper oil.

Shahkhat Said al-Oudhi, the UAE oil minister, has urged the board of directors of Abu Dhabi National Oil Co. to approve the 40-cent reduction and an additional discount in the form of a 15-cent-a-barrel increase in the equity margin for foreign producers of the country's crude, the Middle-East Economic Survey reported.

In Stavanger, Norway, sources said the Norwegian state oil company Statoil has offered to discount its crude by between \$1 and \$2 a barrel to shore up prices on the spot market, where oil sold to the highest bidder has been bringing about \$2 less than the official North Sea price.

Mr. Othman, the chairman of OPEC's market-monitoring committee, had been expected to propose steeper discounts following an interview earlier this month in which he criticized OPEC for not sanctioning a price cut for hard-pressed producers of light crude.

Germans Get Chinese Steel Contract

Reston

DUSSELDORF — China plans to award a West German consortium a 1.5-billion Deutsche mark (\$484-million) contract to build a hot-rolled-products steel plant at Boashan near Shanghai, a spokesman for the consortium leader, Schloemann-Siemag, said Monday.

Schloemann-Siemag, a subsidiary of Gutehoffnungshütte AG, is negotiating with the Chinese authorities over the new contract but no letter of intent has yet been exchanged.

The West German company is finishing a \$450-million cold rolling mill at Boashan.

U.S. to Weigh Bank Appeals

(Continued from Page 15)

beginning to review 329 existing applications for such banks that have been termed "nonbank banks" because they either do not make commercial loans or accept deposits.

About 60 of the applications are complete and the total is expected to increase sharply as competitive forces in the industry generate many more.

Congressional leaders have warned that new banks established across state lines may be put out of business when Congress acts to strengthen the banking system.

But the earnings are generally regarded as early threats by the banking industry.

Mr. Conover had agreed to a moratorium on approvals while Congress was considering comprehensive legislation. Both the House and Senate versions would have closed the so-called nonbank loophole that allows establishment of operations throughout the country.

But the chairman of the House Banking Committee, Fernand St. Germain, blocked the legislation, saying the House would never approve expanded banking powers in areas like insurance and securities sales.

"The need for that legislation was and is critical, not only for banks but also for the public that is being deprived of the benefits of a more competitive marketplace," Mr. Conover said.

The impasse leaves no choice but to go ahead, he said.

"Under existing law I feel compelled to begin deciding applications for nonbank banks," Mr. Conover declared. "Nonbank banks are clearly legal under present law."

A nonbank bank would appear to the customer to be just like any other bank. The fact that it did not make commercial loans would not prevent it from doing everything else a bank does.

COMPANY NOTES

Alstom-Atlantique's capital rose to 616.47 million francs (\$64.62 million) from 577.13 million francs following the issue of 786,637 new shares to accommodate shareholders who took their 1983 dividend of 15 francs per share in the form of new shares, the company said in a statement in Paris.

Ashton-Tate, a leading California microcomputer software publisher, announced the signing of a \$10-million contract with a French-based distributor, La Commande Electronique, to distribute Ashton-Tate's software in France.

Consumers Power Co. of Jackson, Michigan, said a union that represents 4,500 of its employees has refused to accept contract concessions included in a \$200-million austerity plan drawn up after the Midland nuclear plant was scrapped.

Disneyland union leaders said they would urge 1,800 workers on strike at the Anaheim, California, attraction to accept a new contract, which was reached after Walt Disney Productions offered a fresh proposal, but pickets will remain until the ratification vote.

Ducommun, Inc., a Los Angeles industrial supplier to high-technology industries, said it has completed the acquisition of MTI Systems, Corp., a New York technology company, for \$62 million. MTI will become an operating division of the newly formed Ducommun Electronics group.

Federal Paper Board Co. said it is closing operations at its Piermont, New York, folding-carton facility, affecting 350 employees. In Montvale, New Jersey, a company

spokesman said the closing is part of a plan to shift operations from the Northeast to the South and other areas.

GTE Corp. announced the offering of 1.3 million shares of convertible adjustable preferred stock, Series B, valued at around \$65 million. The offering, announced in New York by Goldman Sachs & Co. and Paine Webber Inc., was increased from the original issue of 1 million shares. The CAPS has a stated value of \$50 per share.

Midway Express, formerly Air Florida until its restart by Midway Airlines, Inc., has announced the launching of 28 daily flights to nine U.S. cities in the Northeast, Midwest and Southeast, Air-Florida, a low-cost carrier, filed for court protection from creditors July 3 under Chapter 11 of federal bankruptcy laws.

Novo Industri, the Danish-based insulin and enzymes producer, said sales for 1984 would rise about 10 percent, less than the predicted 20 percent, partly because of reduced sales of starch enzymes and insulin to the United States.

Volvo North America Corp. said a preliminary count indicates that 6.5 million Hamilton Oil Corp. common shares have been tendered in response to Volvo's offer of \$19.50 each for 4.7 million shares.

PPG Industries Inc. of Pittsburgh, makers of glass, coatings and resins, chemicals and fiberglass, announced that its third-quarter profit climbed 10 percent from a year earlier on a 12-percent sales gain. Net income rose to \$76.7 million, or \$1.10 a share, from \$69.6 million, or \$1 a share.

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Output Declines 0.2% in U.K.

Reston

LONDON — British industrial production fell 0.2 percent in August, the Central Statistical Office said Monday in a preliminary report.

At the same time, the Office revised July's production figure upward to 1.1 percent from 0.7 percent. The August figure was 2.6 percent lower than the level of a year earlier.

Meanwhile the Department of Trade and Industry reported that the volume of retail sales rose by around 3 percent in September.

Devoe-Holheim International N.Y.

Bid 80% Ask 90%
Prices in U.S. dollars.
Quote as of October 15, 1984

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October 3, 1984

1,200,000 Shares
ADIA SERVICES, INC.
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(\$25 par value)

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Donaldson, Lufkin & Jenrette Securities Corporation
Hambrecht & Quist Incorporated
Lehman Brothers
PaineWebber Prudential-Bache Securities
Smith Barney, Harris Upham & Co.
UBS Securities Inc.

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E. F. Hutton & Company Inc.
Merrill Lynch Capital Markets
L. F. Rothschild, Unterberg, Towbin
Wertheim & Co., Inc.

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Goldman, Sachs & Co.
Lazard Frères & Co.
Morgan Stanley & Co. Incorporated
Salomon Brothers Inc.
Swiss Bank Corporation International Securities Inc.
Dean Witter Reynolds Inc.

Bank Julius Baer and Co. Ltd.
Banque Paribas (Suisse) S.A.
Crédit Commercial de France
Pictet International Ltd.
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Lombard Odier International S.A.
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Vereins- und Westbank Aktiengesellschaft

Banque Cantonale Vaudoise
Sal. Oppenheim jr. & Cie.
A. Sarasin & Cie.

Tuesdays

Art Buchwald

Tables include the nationwide prices up to the closing on Wall Street

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7%	7 1/2%	8%	8 1/2%	9%	9 1/2%

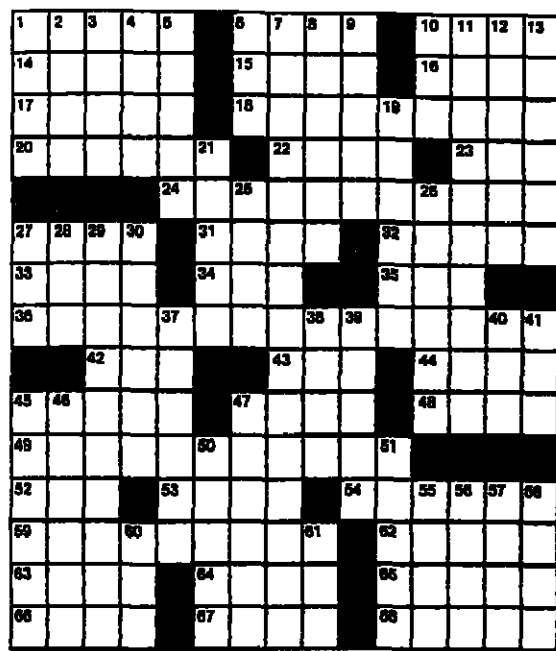
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NASDAQ National Market Prices

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gland, on Thursday, and was released Sunday.

John + Lisa



ACROSS

1 "Ulysses" author
6 Sashes for gaiters
10 Beige
14 "That's— you!"
15 Descartes
16 Meat cut
17 Settled
18 Advocates of land reform
20 Fourteen-line poem
22 A daughter of Eurypylus
23 Baton Rouge, La.
24 The Queen of Disco
27 Pitch helmet
31 She wrote "Atlas Shrugged"
32 City in Idaho
33 Shortly
34 "— Lay Dying"
35 Faulkner novel
36 Coastal flier
38 Maude
42 —la-la
43 Rummy variety
44 Location

DOWN

1 Chinese idol
2 Aware of the real meaning
3 Bear a lamb
4 Invent
5 Terminated
6 A feast
7 Alpha-omega combination
8 Sudden invasion
9 Closes
10 Yale alum
11 Diggers for anthracite
12 Washes lightly
13 Not certain
14 Type of sandwich
15 Pentateuch
16 Space org.
17 Short-barreled cannon
18 — Mahal
19 Arrogant; haughty
20 Unpromisingly stuck
21 Mexican dish
22 Hockey position
23 Signed
24 Abbr. before Magr.
25 Fool
26 Somewhat aged
27 Quintuplets' family name
28 Slanted
29 Unravel
30 Governed
31 Ruled
32 London trolley
33 Gaelic
34 Sandra and Ruby
35 Speed letters
36 Chinese condiment

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DENNIS THE MENACE



"AND ANOTHER THING ABOUT SCHOOL IS THEY LEARN YOU HOW TO SPEAK GOODER ENGLISH."

JUMBLE

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

IRYAH
SUROC
MUJERP
DARAMA

Print answer here:

Yesterday's Jumble: FLOUR WHEEL OPIATE BECALM
Answer: What she did every time she washed her hair—BLEW HER TOP

WEATHER

EUROPE			ASIA		
	HIGH	LOW		HIGH	LOW
Amsterdam	54	42	Bangkok	84	74
London	54	42	Beijing	64	54
Paris	54	42	Hong Kong	74	64
Rome	54	42	Manila	84	74
Sydney	54	42	New Delhi	84	74
Tokyo	54	42	Shanghai	84	74
Washington	54	42	Taipei	84	74
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ART BUCHWALD

A Toast to the President

WASHINGTON — I was at a dinner party the other evening, and as my custom after champagne is poured, I raised my glass and said, "To the president's good health."

The guests, predominantly Republicans, looked at me as if I had just said "To the devil."

"What the hell does that mean?" the host said angrily.

"It doesn't mean anything except I was proposing a toast to the health of the president of the United States."

"The president is in very good health," a White House aide said. "And no one has to toast it."

"I didn't say he wasn't. I was just wishing him more of the same."

"Well, he's a rich lawyer said. Reagan is the youngest 73-year-old man I know. You ought to see him on his ranch when he's chopping wood and riding a horse. It's just like the Democrats to bring up the age issue at this time since they have nothing else to talk about."

"I assure you my toast had nothing to do with politics. I didn't even know how old Mr. Reagan was until the debate. I thought he was still in his '50s. To me he'll always be 'The Gipper'."

"You never would have thought to toast the president's health," a member of Reagan's kitchen cabinet said. "If the president hadn't agreed to look horns with Mondale against everyone's better judgment."

"The debate had nothing to do with raising my glass to Mr. Reagan," I protested. "Although I'll admit he did look a little tired after 30 minutes."

"If Mondale didn't have so much makeup on he would have looked

twice as old as Reagan," someone said.

"Look, I had no intention of bringing up the age issue in this campaign. If you want to know, The Wall Street Journal was the first one to make a big deal of it after the debate. Since the Journal is to the Republican Party what the 'Osservatore Romano' is to the Vatican, I don't see why you people are so upset with me."

"The president's performance in the debate had nothing to do with his age. His staff just stuffed him with so many statistics that Reagan couldn't be Reagan."

"I agree," I said. "Mr. Reagan is always at his best when he's himself, reading from a TelePrompTer, or if his helicopter engines are going full blast as he's leaving for Camp David. The president was in an impossible position standing at a podium for 90 minutes, without his press spokesman, Larry Speakes, to cut off the questions."

"The Russian leaders are far older than Reagan," the rich lawyer's wife said. "And they seem to be doing a pretty good job of running the Soviet Union."

"I don't understand why everyone is so mad because I want to drink to the health of the president," I said.

"Why don't you propose a toast to Mondale's good health? It's a known fact he takes pills for hypertension."

"Because, frankly, I didn't think anyone at this table would join me in a toast to Mondale."

"Reagan could beat Mondale in an arm-wrestling contest any time he wanted to," my host said.

"That's probably true," I said. "But I doubt if he could beat Geraldine Ferraro. Gosh, I'm just a guest here, and I certainly didn't want to ruin the party by suggesting we raise our glasses to the health of the leader of the free world. I'll be glad to withdraw my toast if it will make you all happy."

"You've ruined the party already," the hostess said. "It was the most malicious and rude thing anyone could do. Fortunately you're not going to change anybody's mind in this room. I never thought anyone would have the bad taste to bring up the president's health at a dinner party of mine. Shall we all go into the living room for coffee?"

Roman Villa Found on Crete

The Associated Press

ATHENS — Greek archaeologists excavating in the town of Kastelli Kismou on Crete have unearthed parts of a luxurious Roman villa, dating from the third century A.D., which is decorated with multicolored mosaics and frescoes.

Sniffing Out Some Health Benefits From Garlic

By Jane E. Brody

New York Times Service

NEW YORK — Vitamin C enthusiasts, move over. Garlic may be as effective as your chosen nostrum in warding off the common cold. People throughout the world have used it for years as a "blood cleanser" and cold preventive.

At the very least, if you eat plenty of garlic every day, it should keep people who carry cold viruses at enough of a distance to prevent you from catching their infections.

More seriously, recent scientific evidence indicates that garlic is far more than an herbalist's pipe dream. The studies show that garlic may have distinctive health benefits, including protection against heart disease, stroke, cancer and diabetes, as well as antibiotic properties.

Garlic's health potential did not escape the notice of herbalists and physicians for thousands of years. The Codex Ebers, an Egyptian papyrus from around 1550 B.C., suggested 22 garlic-based remedies for ailments ranging from body weakness and headaches to tumors of the throat.

Pliny the Elder, the Roman naturalist, touted garlic for 61 maladies, from hoarseness and hemorrhoids to epilepsy and tuberculosis; Hippocrates, the father of medicine, used it as a laxative and diuretic; Aristotle recommended it as a cure for rabies; Mohammed used it to treat scorpion stings, and the Greek physician Galen dubbed it the common folk's "heal-all."

It was noted that the garlic-eating French priests who attended victims of the bubonic plague in 18th-century outbreak in London remained healthy, while the English priests, who shunned the odoriferous herb, caught the disease. But by World War I, the British had caught on and used garlic to control infection, while German soldiers used it to prevent gangrene in battle wounds.

Garlic is popularly used to prevent and treat diarrhea, and a 1969 study showed garlic to be deadly to bacteria commonly associated with this condition.

Folk wisdom has long hailed garlic as a powerful protector against evil spirits. See Kreitzman, author of "Garlic," a folk-

lore-laced cookbook published last summer by Harmony Books, notes that in the Middle Ages, cradles were garlanded with braids of garlic to keep babies from stealing babies and that some Chinese, Greek and Jewish grandmothers still present cloves of garlic to new babies to ward off the "evil eye."

Most infamous is garlic's reputed power against vampires: To keep these bloodthirsty creatures from your jugular, cover all doors and windows with clusters of garlic and wear some around your neck.

Garlic has been cultivated in China since time immemorial. It was mentioned in Sanskrit, one of the first written languages, as a staple in the diet of the ancient Sumerians. It was consumed daily by the Egyptian laborers who built the pyramids, and it was found in the tomb of King Tutankhamen.

The botanical name for garlic, *Allium sativum*, was probably derived from the Celtic word "all," meaning hot or burning. Its aromatic properties are attributable to an amino acid called allicin found in garlic oil. Allicin has no distinctive odor, but when a clove of garlic is sliced or bruised, damage to cell membranes allows allicin to come into contact with an enzyme that converts it to allicin, the potent chemical we readily identify with garlic odor.

In cooking, you can control the amount of allicin produced by how you cut the garlic: A whole clove unpeeled or gently peeled after parboiling gives off little or none of this chemical; bruising or slicing a clove produces some, but mincing or pressing it releases the maximum allicin.

Long, slow cooking destroys allicin. That is why certain soups and stews can be prepared with 20 to 40 cloves of garlic and still be edible. After 40-clove garlic chicken is cooked for an hour and a half, for example, the whole cloves are mellow and almost sweet. It is true, however, that consumption of raw or minimally cooked garlic can result in a digestive upset, not from the garlic itself but from the allicin.

Why eat whole cloves of garlic, or any garlic at all? For one reason, it may help to prevent heart



From "The Gardener's Catalog" (William Morrow, 1979)

disease. In countries where garlic is consumed regularly, the incidence of heart disease is very low. This observation, according to recent findings, may be more than coincidental. Garlic can help to lower blood levels of cholesterol, the waxy substance that is a chief culprit in coronary heart disease.

In a study conducted by Dr. Arun Bordia at Tagore Medical College in India, 20 people were fed garlic oil daily for six months. Serum cholesterol levels dropped an average of 17 percent and triglycerides, another heart-damaging blood fat, dropped by 20 percent during garlic administration.

In addition, the garlic diet was associated with an increase in a protective blood substance known as high-density lipoproteins, HDLs, and a decrease in their heart-damaging counterparts, low-density lipoproteins, or LDLs.

Animal researchers at the Wistar Institute in Philadelphia and at the University of Wisconsin showed that garlic oil in the feed significantly reduced cholesterol levels in rabbits, chickens and rats.

Previous studies by the Indian researcher and his colleagues, and by a research team in Washington led by Dr. J. Martin Bailey showed that garlic oil can inhibit clot formation, which in turn would reduce the risk of heart attack and stroke. In another study, researchers isolated a substance from both garlic and onions that keeps blood platelets

from sticking together. The clumping of these cells is a crucial step in the formation of blood clots. A substance other than allicin seems to be responsible for this property, so it may be possible in this case to separate the benefit from the stench.

In both China and Japan, garlic has been used for centuries in the treatment of high blood pressure, and the Japanese food and drug administration has approved garlic therapy for this purpose.

At the U.S. Department of Agriculture, Dr. Mei Ling Chang and Margaret Johnson showed that garlic can also reduce blood sugar levels and raise the amount of insulin in the blood, which may prove beneficial to diabetics. In one study in rabbits, garlic juice was shown to be almost as effective as the drug tolbutamide in lowering blood sugar.

Possible anticancer activity of garlic has been noted in several animal studies, variously attributed to the enzyme allicin and the trace metals germanium and selenium, all of which are found in garlic.

But far clearer are garlic's antibiotic properties. At the Medical College of Virginia, a water extract of garlic was shown to inhibit growth of a fungus that causes a form of meningitis. At the University of Indiana, Dr. Michael Tansey, who also studied a water extract, showed that garlic could slow or stop the growth of various fungi and molds, including *Candida albicans*, a yeast that commonly causes vaginitis, and *Histoplasma capsulatum*, a fungus carried by dust that causes a disease similar to tuberculosis, as well as fungi that cause athlete's foot and ringworm.

At the University of Minnesota, research chemists have devised a way to synthesize garlic's active ingredient — technically, allyl methyl trisulfide — the first important step in manufacturing it as a drug.

Meanwhile, for those who have only the culinary herb to rely on, two methods of countering garlic's social liabilities have been suggested. One is to chew lots of fresh parsley after eating garlic (the herb's chlorophyll is said to act as nature's mouthwash). The other is to eat everyone you know to eat garlic too.

PEOPLE

Jacyn Smith Will Play Different Kind of Angel

Jacyn Smith, one of the stars of the U.S. TV series "Charlie's Angels," arrived in Britain Monday to play a new role — Florence Nightingale. Smith will star in a British Broadcasting Corporation TV biography of the upper-class English lady whose treatment of British casualties in the 1854 Crimean War transformed the Victorian nursing profession.

Lauren Bacall says she is not through with movies yet and still longs to star in a "wonderful" film. "If you hang around long enough, they have to use you," Bacall told the Foreign Correspondents' Club of Japan in Tokyo. The 60-year-old actress is making her first visit to Japan to mark the publication of the translation of her autobiography, "By Myself," into Japanese.

Britain's Prince Philip is in Japan for a six-day visit to promote conservation of wildlife, including China's endangered giant panda. The prince will also publicize a campaign to protect endangered plants.

Governor George C. Wallace, 65, of Alabama, released from a Birmingham hospital after a two-week stay, says he's feeling good and will return to work this week. Wallace was treated for a urinary tract infection.

The Reverend Martin Luther King Sr. will continue to take medication and be monitored by a cardiologist after being discharged from an Atlanta hospital where he was treated for a chronic heart ailment, his doctor says. The father of the late civil rights leader is 84.

Oil billionaire and movie mogul Marvin Davis and his wife, Barbara, staged the seventh annual Carousel Ball in Denver during the weekend, a star-studded affair to raise funds for the Children's Diabetes Foundation. The ball, which raised more than \$2 million, attracted such guests as Linda Evans and John Forsythe, who star in the TV hit "Dynasty," former President Gerald Ford; Henry Kissinger; Priscilla Presley; Lucille Ball; and Cathy Lee Crosby. Others rubbing elbows and clinking wine glasses were Olympic gold medalist Mary Lou Retton, singer Lionel Richie, who was named recipient of the ball's Man of the Year Award; and singer Kenny Rogers, who recently sold his home to Davis for a cool \$20 million.

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